SEC Number **PW-55**

File Number ____________

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2011

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

March 6, 2012

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Atty. Jocelyn C. Villar-Altamira
Acting Director-Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-C with Management's Discussion and Analysis and accompanying audited consolidated financial statements as at and for the year ended December 31, 2011.

Very truly yours,

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

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

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

(Company's Full Name)

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

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

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

MS. JUNE CHERYL A. CABAL-REVILLA
Contact Person

816-8534
Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

SEC FORM 17-C
FORM TYPE

0	6	Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

12,410
As of January 31, 2012
Total No. of Stockholders

Total Amount of Borrowings

N/A	N/A
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

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

1. March 6, 2012
Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

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

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

5. PHILIPPINES
Province, country or other jurisdiction of Incorporation

6. ____________ (SEC Use Only)
Industry Classification Code

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	214,436,333(1)
Amount of Debt Outstanding	Php117,275 million as at December 31, 2011

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

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 and related notes (pages F-1 to F-132) are filed as part of this report on Form 17-C.

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

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see Note 2 – Summary of Significant Accounting Policies to the accompanying 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 consolidated financial statements and the related notes. Our 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 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 consolidated financial statements were made based on the exchange rate of Php43.92 to US$1.00, the volume weighted average exchange rate as at December 31, 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)	December 31,		Increase	
	2011[1]	2010	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php395,646	Php277,815	Php117,831	42
Property, plant and equipment – net	197,731	163,184	34,547	21
Cash and cash equivalents and short-term investments	46,615	37,347	9,268	25
Total equity attributable to equity holders of PLDT	151,833	97,069	54,764	56
Notes payable and long-term debt, including current portion	117,275	89,646	27,629	31
Net debt[2] to equity ratio	0.47x	0.54x	–	–

	Years Ended December 31,		Increase (Decrease)	
	2011[1]	2010	Amount	%
Consolidated Income Statements				
Revenues[3]	Php156,603	Php158,387	(Php1,784)	(1)
Expenses[3]	113,382	102,831	10,551	10
Other expenses	544	1,871	(1,327)	(71)
Income before income tax	42,677	53,685	(11,008)	(21)
Net income	31,637	40,259	(8,622)	(21)
Net income attributable to equity holders of PLDT:				
Reported net income	31,697	40,217	(8,520)	(21)
Core income	39,035	42,028	(2,993)	(7)
EBITDA	79,959	83,717	(3,758)	(4)
EBITDA margin[3] and [4]	52%	54%	(2%)	(4)
Reported earnings per common share:				
Basic	163.24	212.85	(49.61)	(23)
Diluted	163.10	212.85	(49.75)	(23)
Core earnings per common share[5]:				
Basic	201.58	222.55	(20.97)	(9)
Diluted	201.41	222.55	(21.14)	(9)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	79,209	77,260	1,949	3
Net cash used in investing activities	29,712	23,283	6,429	28
Capital expenditures	*31,207*	*28,766*	*2,441*	*8*
Net cash used in financing activities	40,204	55,322	(15,118)	(27)
Operational Data				
Number of cellular subscribers	63,696,629	45,636,008	18,060,621	40
Number of fixed line subscribers	2,166,295	1,822,105	344,190	19
Number of broadband subscribers:	2,928,369	2,021,004	907,365	45
Fixed Line	*859,960*	*665,027*	*194,933*	*29*
Wireless	*2,068,409*	*1,355,977*	*712,432*	*53*
Number of employees:	34,116	28,770	5,346	19
Fixed Line	*11,409*	*9,572*	*1,837*	*19*
LEC	*9,072*	*7,395*	*1,677*	*23*
Others	*2,337*	*2,177*	*160*	*7*
Wireless	*8,043*	*5,165*	2,878	*56*
Business Process Outsourcing	*14,664*	*14,033*	*631*	*4*

Exchange Rates – per US$	As at December 31,	For the year ended December 31, Weighted average rates
2011	Php43.92	Php43.31
2010	43.81	45.12
2009	46.43	47.64

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(1) Includes the Digitel Group's financial information and operational data as at and for the period from October 26, 2011 to December 31, 2011.

(2) 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).

(3) The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the succeeding page and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.

(4) EBITDA margin is measured as EBITDA divided by service revenues for the year.

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

As discussed in Other Information and *Note 13 – Business Combinations – PLDT's Acquisition of Digitel* to the accompanying consolidated financial statements, the acquisition of Digitel was completed on October 26, 2011. Digitel's consolidated financial highlights and results of operations as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011, as set forth in the table below, are included in our consolidated financial statements as at and for the year ended December 31, 2011:

(in millions, except for EBITDA margin and operational data)	Digitel Group	Intercompany Transactions	Incremental Impact of the Digitel Group on PLDT Group
As at December 31, 2011			
Statements of Financial Position			
Total assets	Php46,512	(4,178)	42,334
Property, plant and equipment – net	39,544	–	39,544
Cash and cash equivalents and short-term investments	2,028	–	2,028
Notes payable and long-term debt, including current portion	40,545	(17,629)	22,916
For the period from October 26, 2011 to December 31, 2011			
Income Statements			
Revenues	Php3,890	(45)	3,845
Expenses	3,809	(24)	3,785
Other expenses	3,004	(2,062)	942
Loss before income tax	2,923	(2,041)	882
Net loss for the period	2,647	(2,041)	606
Net loss attributable to equity holders:			
Reported net loss	2,647	(2,041)	606
Core income	(243)	234	(9)
EBITDA	1,077	(21)	1,056
EBITDA margin[(1)]	28%	–	28%
Statements of Cash Flows			
Net cash provided by operating activities	1,785	–	1,785
Net cash provided by investing activities	1,029	–	1,029
Capital expenditures	*839*	–	*839*
Net cash used in financing activities	793	–	793
Operational Data			
Number of cellular subscribers	14,667,185	–	14,667,185
Number of fixed line subscribers	296,395	–	296,395
Number of broadband subscribers	551,423	–	551,423
Fixed Line	*99,367*	–	*99,367*
Wireless	*452,056*	–	*452,056*

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

Change in the Presentation of our Outbound Revenues

In 2011, we changed the presentation of our outbound revenues to gross amounts before charges billed to us, where applicable, by other carriers. In doing so, interconnection costs are then presented as a separate line item in the expense section of our consolidated income statements. Prior to 2011, we presented outbound revenues net of the share of other carriers. We made this change to present outbound revenue on a gross basis to more correctly present and align our consolidated income statement presentation with the predominant global practice in the telecommunications industry.

We accounted for the change retroactively and accordingly restated our comparative consolidated income statements. The change has no impact on our consolidated net income, earnings per share, cash flows and statements of financial position. The table below shows the affected line items in our financial information for the year ended December 31, 2010:

	For the year ended December 31, 2010		
	As restated	As previously presented	Change
		(in millions)	
Revenues	Php158,387	Php144,459	Php13,928
Expenses	102,831	88,903	13,928
EBITDA margin	54%	59%	(5%)

Overview

We are the largest and most diversified telecommunications company in the Philippines. Based on the recent reorganization, as discussed below, we have organized our business into business units based on our products and services and have four reportable operating segments which serve as bases for management's decision to allocate resources and evaluate operating performance:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Connectivity Unlimited Resource Enterprise, or CURE, and Digital Mobile Philippines, Inc., or DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digital Telecommunications Inc., or Digitel (PLDT acquired a controlling interest in Digitel on October 26, 2011 and through a series of transactions holds approximately 99.4% of the outstanding common stock of Digitel as at March 6, 2012), our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and its 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. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global Corporation, or PLDT Global, and Digitel, all of which together account for approximately 17% of our consolidated fixed line subscribers; and 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 ABM Global Solutions, Inc. (formerly known as BayanTrade, Inc.), or AGS, and its subsidiaries, or AGS Group; netGames, Inc.; and bills printing and other value-added services, or VAS, -related services provided by ePDS, Inc., or ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% on August 24, 2011). ePLDT disposed of its 75% interest in Digital Paradise, a provider of internet access services, on April 1, 2011 and its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011;

- *Business Process Outsourcing, or BPO* — knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and its subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM; and Infocom (ePLDT transferred the internet business of Infocom to PLDT on July 1, 2011); and

- *Others* — PCEV, a holding/investment company.

See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations* to the accompanying consolidated financial statements.

The primary effects of the acquisition of the Digitel Group on our operating segments is the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand. For further information on the effect of the Digitel acquisition on PLDT and its businesses, see "— Part II — Other Information — PLDT's Acquisition of Digitel".

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the information and communications technology, or ICT, business group, which provides data center services, internet and online gaming services and business solutions and applications, and which was subsequently incorporated into our fixed line business; and (ii) the BPO business group, which covers customer relationship management or call center operations under SPi CRM; and content solutions, medical billing and coding and medical transcription services under SPi.

With our objective to grow the BPO business segment, and for ePLDT to focus on its core business of IT infrastructure and services, our Board of Directors approved on July 5, 2011 to spin off SPi and SPi CRM from ePLDT and transfer the ownership of SPi Global to PLDT, and to place both SPi and SPi CRM under SPi Global. The reorganization was completed on December 6, 2011.

PCEV transferred its cellular business to Smart in August 2009 and acquired 223 million common shares, or about 20% equity interest, in Manila Electric Company, or Meralco, in March 2010. PCEV subsequently transferred to Beacon Electric Asset Holdings, Inc., or Beacon, in which PCEV acquired 50% equity interest effective March 31, 2010, 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment/holding company and reclassified PCEV from Wireless to Others business segment.

Our chief operating decision maker now views our business activities in four business units: Wireless, Fixed Line, BPO and Others, compared to three business units in 2010: Wireless, Fixed Line and ICT. The remaining ICT businesses, which do not form part of our BPO, were reclassified into our fixed line segment. We have retroactively implemented the above changes in our segment reporting and restated our comparative operating segment information accordingly.

Performance Indicators

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

EBITDA

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

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling 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 years ended December 31, 2011 and 2010 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2011 and 2010:

	2011[1]	2010
	(in millions)	
Consolidated EBITDA	Php79,959	Php83,717
Depreciation and amortization	(27,957)	(26,277)
Asset impairment on noncurrent assets	(8,517)	(1,496)
Amortization of intangible assets	(264)	(388)
Equity share in net earnings of associates and joint ventures	2,035	1,408
Interest income	1,372	1,200
Gains (losses) on derivative financial instruments – net	197	(1,741)
Foreign exchange gains (losses) – net	(744)	1,807
Financing costs – net	(6,491)	(6,698)
Other income	3,087	2,153
Consolidated income before income tax	42,677	53,685
Provision for income tax	(11,040)	(13,426)
Consolidated net income	Php31,637	Php40,259

[1] *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2011 and 2010:

	2011[1]	2010
	(in millions)	
Consolidated core income	Php39,035	Php42,028
Gains (losses) on derivative financial instruments – net, excluding hedge cost	560	(1,307)
Core income adjustment on equity share in net earnings of associates and joint ventures	(476)	(699)
Foreign exchange gains (losses) – net	(750)	1,819
Asset impairment on noncurrent assets – net of share of noncontrolling interest	(8,517)	(1,492)
Others	233	–
Net tax effect of aforementioned adjustments	1,612	(132)
Net income attributable to equity holders of PLDT	31,697	40,217
Net income (loss) attributable to noncontrolling interests	(60)	42
Consolidated net income	Php31,637	Php40,259

[1] *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the years ended December 31, 2011 and 2010. In each of the years ended December 31, 2011 and 2010, we generated a majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
			(in millions)			
December 31, 2011						
Revenues	Php103,538	Php60,006	Php8,588	Php–	(Php15,529)	Php156,603
Expenses	71,049	50,620	7,598	11	(15,896)	113,382
Other income (expenses)	(1,694)	(593)	112	1,998	(367)	(544)
Income before income tax	30,795	8,793	1,102	1,987	–	42,677
Provision for income tax	8,429	2,491	118	2	–	11,040
Net income /Segment profit	22,366	6,302	984	1,985	–	31,637
EBITDA	55,393	22,675	1,558	(11)	344	79,959
EBITDA margin[(2)]	54%	39%	18%	(100%)	–	52%
Core income	29,903	5,765	906	2,461	–	39,035
December 31, 2010[(1)]						
Revenues	105,381	60,158	8,112	–	(15,264)	158,387
Expenses	59,807	50,243	8,481	19	(15,719)	102,831
Other income (expenses)	(136)	(2,694)	43	1,371	(455)	(1,871)
Income (loss) before income tax	45,438	7,221	(326)	1,352	–	53,685
Provision for (benefit from) income tax	11,413	2,076	(64)	1	–	13,426
Net income /Segment profit (loss)	34,025	5,145	(262)	1,351	–	40,259
EBITDA	58,964	23,047	1,270	(19)	455	83,717
EBITDA margin[(2)]	57%	39%	16%	(100%)	–	54%
Core income	33,352	5,845	765	2,066	–	42,028

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Revenues	(Php1,843)	(2)	(Php152)	–	Php476	6	Php–	–	(Php265)	2	(Php1,784)	(1)
Expenses	11,242	19	377	1	(883)	(10)	(8)	(42)	(177)	1	10,551	10
Other income (expenses)	(1,558)	1,146	2,101	(78)	69	160	627	46	88	(19)	1,327	(71)
Income before income tax	(14,643)	(32)	1,572	22	1,428	438	635	47	–	–	(11,008)	(21)
Provision for income tax	(2,984)	(26)	415	20	182	284	1	100	–	–	(2,386)	(18)
Net income /Segment profit (loss)	(11,659)	(34)	1,157	22	1,246	476	634	47	–	–	(8,622)	(21)
EBITDA	(3,571)	(6)	(372)	(2)	288	23	8	(42)	(111)	(24)	(3,758)	(4)
Core income	(3,449)	(10)	(80)	(1)	141	18	395	19	–	–	(2,993)	(7)

(1) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

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

The table below shows the contribution by business segment of the results of the Digitel Group since its acquisition on October 26, 2011 to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the period from October 26, 2011 to December 31, 2011.

	Wireless	Fixed Line	Consolidated	Intercompany Transactions	Incremental Effect on PLDT Group
			(in millions)		
For the period from October 26, 2011 to December 31, 2011					
Revenues	Php3,184	Php706	Php3,890	(Php45)	Php3,845
Expenses	3,083	726	3,809	(24)	3,785
Other expenses	764	2,240	3,004	(2,062)	942
Loss before income tax	663	2,260	2,923	(2,041)	882
Provision for income tax	258	18	276	–	276
Net loss /Segment profit	405	2,242	2,647	(2,041)	606
EBITDA	1,137	(60)	1,077	(21)	1,056
EBITDA margin[(1)]	37%	(8%)	28%	–	28%
Core income	154	(397)	(243)	234	(9)

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

On a Consolidated Basis

We reported consolidated revenues of Php156,603 million in 2011, which includes revenue contribution from the Digitel Group of Php3,890 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,784 million, or 1%, as compared with Php158,387 million in 2010, primarily due to a decline in our service revenues by Php2,212 million as a result of decreases in cellular and satellite revenues from our wireless business, and national long distance and local exchange services from our fixed line business. These were partially offset by higher revenues from data and other network services, as well as the higher revenue contribution of our BPO business.

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2011 and 2010:

	2011[1]	%	2010[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php103,538	66	Php105,381	67	(Php1,843)	(2)
Fixed line	60,006	38	60,158	38	(152)	–
BPO	8,588	6	8,112	5	476	6
Inter-segment transactions	(15,529)	(10)	(15,264)	(10)	(265)	2
Consolidated	Php156,603	100	Php158,387	100	(Php1,784)	(1)

[1] *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
[2] *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated expenses increased by Php10,551 million, or 10%, to Php113,382 million in 2011, which includes expenses from the Digitel Group of Php3,809 million for the period from October 26, 2011 to December 31, 2011, from Php102,381 million in 2010, largely as a result of higher asset impairment, selling and promotions, depreciation and amortization, taxes and licenses, repairs and maintenance, professional and other contracted services, and cost of sales, partly offset by decreases in compensation and employee benefits, and amortization of intangible assets.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2011 and 2010:

	2011[1]	%	2010[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php71,049	62	Php59,807	58	Php11,242	19
Fixed line	50,620	45	50,243	49	377	1
BPO	7,598	7	8,481	8	(883)	(10)
Others	11	–	19	–	(8)	(42)
Inter-segment transactions	(15,896)	(14)	(15,719)	(15)	(177)	1
Consolidated	Php113,382	100	Php102,831	100	Php10,551	10

[1] *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
[2] *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated other expenses in 2011 amounted to Php544 million, which includes other expenses from the Digitel Group of Php3,004 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,327 million, or 71%, from Php1,871 million in 2010, primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php197 million in 2011 as against net losses on derivative financial instruments of Php1,741 million in 2010 mainly due to the effect of wider U.S. dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in 2011; (ii) an increase in other income by Php934 million mainly due to the reversal of prior year's accrual of long-term incentive plan, or LTIP, pension benefit income recognized by PLDT and net gain on sale of investments in Level Up! and Digital Paradise, partly offset by lower net gain on disposal of fixed assets of Php742 million in 2011; (iii) net increase in equity share in net earnings of associates and joint ventures by Php627 million; (iv) a decrease in net financing costs by Php207 million mainly due to lower interest on loans and other related items on account of lower average interest rates and, partially offset by higher average level of loan balances by our fixed line and wireless businesses and lower capitalized interest by our wireless business; (v) higher interest income by Php172 million due to a higher average level of peso and dollar short-term investments, higher average peso and dollar interest rates and the impact of the depreciation of the Philippine peso on dollar placements; and (vi) net foreign exchange losses of Php744 million in 2011 as against net foreign exchange gains of Php1,807 million in 2010 due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the depreciation of the Philippine peso to the U.S. dollar.

The following table shows the breakdown of our consolidated other expenses by business segment for the years ended December 31, 2011 and 2010:

					Change	
	2011(1)	**%**	**2010**(2)	**%**	**Amount**	**%**
			(in millions)			
Wireless	(Php1,694)	311	(Php136)	7	(Php1,558)	1,146
Fixed line	(593)	109	(2,694)	144	2,101	(78)
BPO	112	(21)	43	(2)	69	160
Others	1,998	(367)	1,371	(73)	627	46
Inter-segment transactions	(367)	68	(455)	24	88	(19)
Consolidated	(Php544)	100	(Php1,871)	100	(Php1,327)	(71)

(1) *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated net income, including a net loss contribution from the Digitel Group of Php2,647 million for the period from October 26, 2011 to December 31, 2011, decreased by Php8,622 million, or 21%, to Php31,637 million in 2011, from Php40,259 million in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php1,784 million; (ii) an increase in consolidated expenses by Php11,742 million; (iii) a decrease in consolidated other expenses by Php1,327 million; and (iv) a decrease in consolidated provision for income tax by Php2,386 million, which was mainly due to lower taxable income from our wireless business. Our consolidated basic and diluted EPS decreased to Php163.24 and 163.10, respectively, in 2011 from consolidated basic and diluted EPS of 212.85 in 2010. Our weighted average number of outstanding common shares was approximately 191.4 million and 186.8 million in the years ended December 31, 2011 and 2010, respectively.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2011 and 2010:

	2011[(1)]	%	2010[(2)]	%	Change Amount	Change %
			(in millions)			
Wireless	Php22,366	71	Php34,025	85	(Php11,659)	(34)
Fixed line	6,302	20	5,145	13	1,157	22
BPO	984	3	(262)	(1)	1,246	476
Others	1,985	6	1,351	3	634	47
Consolidated	Php31,637	100	Php40,259	100	(Php8,622)	(21)

(1) *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

EBITDA

Our consolidated EBITDA was Php79,959 million in 2011, which includes an EBITDA contribution from the Digitel Group of Php1,077 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php3,758 million, or 4%, as compared with Php83,717 million in 2010, primarily due to a decline in service revenues from our wireless business, and higher operating expenses driven primarily by higher selling and promotions expenses, taxes and licenses, repairs and maintenance, and professional and other contracted services, and higher provision for uncollectible receivables.

The following table shows the breakdown of our consolidated EBITDA by business segment for the years ended December 31, 2011 and 2010:

	2011[(1)]	%	2010[(2)]	%	Change Amount	Change %
			(in millions)			
Wireless	Php55,393	69	Php58,964	70	(Php3,571)	(6)
Fixed line	22,675	28	23,047	28	(372)	(2)
BPO	1,558	2	1,270	2	288	23
Others	(11)	–	(19)	–	8	(42)
Inter-segment transactions	344	1	455	–	(111)	(24)
Consolidated	Php79,959	100	Php83,717	100	(Php3,758)	(4)

(1) *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Core Income

Our consolidated core income was Php39,035 million in 2011, which includes a loss from the Digitel Group of Php243 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php2,993 million, or 7%, as compared with Php42,028 million in 2010, primarily due to a decrease in consolidated revenues and an increase in consolidated expenses, partially offset by decreases in consolidated other expenses and consolidated provision for income tax. Our consolidated basic and diluted core EPS also decreased to Php201.58 and Php201.41, respectively, in 2011 from Php222.55 in 2010.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2011 and 2010:

	2011[1]	%	2010[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless	Php29,903	77	Php33,352	79	(Php3,449)	(10)
Fixed line	5,765	15	5,845	14	(80)	(1)
BPO	906	2	765	2	141	18
Others	2,461	6	2,066	5	395	19
Consolidated	Php39,035	100	Php42,028	100	(Php2,993)	(7)

(1) *Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php103,538 million in 2011, including a contribution from DMPI of Php3,184 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,843 million, or 2%, from Php105,381 million in 2010.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2011 and 2010 by service segment:

	2011[1]	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Cellular[2]	Php93,645	90	Php95,520	91	(Php1,875)	(2)
Wireless broadband, satellite and others						
Wireless broadband[2]	6,804	7	6,287	6	517	8
Satellite and others	1,620	2	2,217	2	(597)	(27)
	102,069	99	104,024	99	(1,955)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,469	1	1,357	1	112	8
Total Wireless Revenues	Php103,538	100	Php105,381	100	(Php1,843)	(2)

(1) *Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table summarizes the revenue contribution of DMPI for the period from October 26, 2011 to December 31, 2011 by service segment:

	2011	%
	(in millions)	
Service Revenues:		
Cellular	Php2,808	88
Wireless broadband, satellite and others		
Wireless broadband	290	9
	3,098	97
Non-Service Revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	86	3
Total Wireless Revenues	Php3,184	100

Service Revenues

Our wireless service revenues decreased by Php1,955 million, or 2%, to Php102,069 million in 2011, which includes service revenues from DMPI of Php3,098 million for the period from October 26, 2011 to December 31, 2011, as compared with Php104,024 million in 2010, mainly as a result of lower revenues from our cellular, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as from domestic text messaging services on the back of pervasive multiple SIM card ownership, increased utilization of unlimited offers and increasing patronage of social networking sites, partially offset by an increase in international short messaging service, or SMS, as well as higher VAS revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 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 2011 were lower as compared with 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues amounted to 99% in each of 2011 and 2010.

Cellular Service

Our cellular service revenues in 2011 amounted to Php93,645 million, which includes revenues from DMPI for the period from October 26, 2011 to December 31, 2011 of Php2,808 million, a decrease of Php1,875 million, or 2%, from Php95,520 million in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in 2011 and 2010.

Smart, together with *Talk 'N Text*, *Red Mobile* and *Sun Cellular*, has focused on segmenting the market by offering sector-specific, value-driven packages for its subscribers. These include load buckets which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls of preset duration. Starting out as purely on-net packages, Smart's buckets now also offer voice, text and hybrid bundles available to all networks. Smart also provides packages with unlimited voice, text, data, and combinations thereof, whose denominations depend on the duration and nature of the unlimited packages.

Postpaid subscribers have similar options depending on their monthly subscription plans. Recently, Smart introduced its new postpaid consumable plan, *Smart All-in Plans*, which enables subscribers to choose from Smart's different services, such as unlimited call, text, or mobile browsing, all charged within the subscriber's monthly service fee.

Smart's most recent innovation is the *Trio 20*, the first Smart-*Talk 'N Text-Sun Cellular* Synergy offer. For only Php20, subscribers can send 200 texts and 15 minutes of calls to other Smart, *Talk 'N Text* and *Sun Cellular* subscribers valid for 1 day.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2011 and 2010:

	2011[1]	2010[2]	Increase (Decrease) Amount	%
	(in millions)			
Cellular service revenues	Php93,645	Php95,520	(Php1,875)	(2)
By service type	*91,120*	*92,914*	*(1,794)*	*(2)*
Prepaid	81,648	84,385	(2,737)	(3)
Postpaid	9,472	8,529	943	11
By component	*91,120*	*92,914*	*(1,794)*	*(2)*
Voice	43,885	45,678	(1,793)	(4)
Data	47,235	47,236	(1)	–
Others[3]	*2,525*	*2,606*	*(81)*	*(3)*

(1) *Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*
(3) *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.*

The following table shows the breakdown of DMPI's cellular service revenues for the period from October 26, 2011 to December 31, 2011:

	2011
	(in millions)
Cellular service revenues	Php2,808
By service type	*2,757*
Prepaid	1,558
Postpaid	1,199
By component	*2,757*
Voice	1,537
Data	1,220
Others	*51*

The following table shows our other key measures of our cellular business as at and for the years ended December 31, 2011 and 2010:

	2011	2010	Increase (Decrease) Amount	%
Cellular subscriber base	63,696,629	45,636,008	18,060,621	40
Prepaid	61,792,792	45,214,433	16,578,359	37
Smart Prepaid	*26,573,137*	*25,293,443*	*1,279,694*	*5*
Talk 'N Text	*20,467,175*	*18,967,381*	*1,499,794*	*8*
Red Mobile	*1,438,384*	*953,609*	*484,775*	*51*
Sun Cellular[1]	*13,314,096*	–	*13,314,096*	*100*
Postpaid	1,903,837	421,575	1,482,262	352
Smart	*550,485*	*421,575*	*128,910*	*31*
Red Mobile[2]	*263*	–	*263*	*100*
Sun Cellular[1]	*1,353,089*	–	*1,353,089*	*100*
Systemwide traffic volumes (in millions)				
Calls (in minutes)[3]	41,251	26,813	14,438	54
Domestic	38,166	23,787	14,379	60
Inbound	*1,350*	*1,437*	*(87)*	*(6)*
Outbound	*36,816*	*22,350*	*14,466*	*65*
International	3,085	3,026	59	2
Inbound	*2,862*	*2,817*	*45*	*2*
Outbound	*223*	*209*	*14*	*7*
SMS/Data count (in hits)[4]	354,135	341,113	13,022	4
Text messages	351,502	339,530	*11,972*	*4*
Domestic	350,858	339,011	*11,847*	*3*
Inbound	*10,477*	*8,058*	2,419	30
Outbound	*340,381*	*330,953*	9,428	3
Bucket-Priced/Unlimited	322,588	312,634	9,954	3
Standard	17,793	18,319	*(526)*	*(3)*
International	644	519	*125*	*24*
Inbound	*363*	*211*	152	72
Outbound	*281*	*308*	(27)	(9)
Value-Added Services	2,596	1,557	1,039	67
Financial Services	37	26	11	42

(1) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*
(2) *Red Mobile postpaid was launched on March 17, 2011.*
(3) *Includes DMPI's minutes for the period from October 26, 2011 to December 31, 2011.*
(4) *Includes DMPI's SMS counts for the period from October 26, 2011 to December 31, 2011.*

Revenues generated from our prepaid cellular services amounted to Php81,648 million in 2011, a decrease of Php2,737 million, or 3%, as compared with Php84,385 million in 2010. Prepaid cellular service revenues accounted for 90% and 91% of cellular voice and data revenues in 2011 and 2010, respectively. Revenues generated from postpaid cellular service amounted to Php9,472 million in 2011, an increase of Php943 million, or 11%, as compared with Php8,529 million earned in 2010, and which accounted for 10% and 9% of cellular voice and data revenues in of 2011 and 2010, respectively. The decrease in revenues from our prepaid cellular services was primarily due to a decline in revenues from domestic and international calls, as well as domestic SMS, partially offset by an increase in VAS revenues, mainly from internet-based VAS and *Pasa Load*, and the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011.

Revenues attributable to DMPI's prepaid and postpaid cellular services for the period from October 26, 2011 to December 31, 2011 amounted to Php1,558 million and Php1,199 million, and accounted for 57% and 43% of DMPI's cellular voice and data revenues, respectively.

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 Php1,793 million, or 4%, to Php43,885 million in 2011 from Php45,678 million in 2010, primarily due to a decrease in domestic and international call revenues, partially offset by the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. Cellular voice services accounted for 47% and 48% of our cellular service revenues in 2011 and 2010, respectively.

Cellular revenues from DMPI's voice services amounted to Php1,537 million for the period from October 26, 2011 to December 31, 2011 and accounted for 55% of DMPI's cellular service revenues in 2011. Domestic and international voice service revenues contributed Php1,396 million and Php141 million, and accounted for 91% and 9%, respectively, of DMPI's voice service revenues for the period from October 26, 2011 to December 31, 2011.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2011 and 2010:

			Decrease	
	2011[(1)]	**2010[(2)]**	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php4,963	Php5,203	(Php240)	(5)
Outbound	22,442	22,807	(365)	(2)
	27,405	28,010	(605)	(2)
International				
Inbound	13,906	14,738	(832)	(6)
Outbound	2,574	2,930	(356)	(12)
	16,480	17,668	(1,188)	(7)
Total	Php43,885	Php45,678	(Php1,793)	(4)

(1) *Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table shows the breakdown of DMPI's cellular voice revenues for the period from October 26, 2011 to December 31, 2011:

	2011
	(in millions)
Voice services:	
Domestic	*Php1,396*
Inbound	198
Outbound	1,198
International	*141*
Inbound	4
Outbound	137
Total	Php1,537

Domestic voice service revenues decreased by Php605 million, or 2%, to Php27,405 million in 2011 from Php28,010 million in 2010, primarily due to a decrease in domestic outbound call revenues by Php365 million, or 2%, to Php22,442 million in 2011 from Php22,807 million in 2010 mainly due to higher traffic volumes of unlimited calls at lower yield. In addition, revenues from our domestic inbound voice service decreased by Php240 million, or 5%, to Php4,963 million in 2011 from Php5,203 million in 2010 as a result of a decrease in inbound call traffic from domestic fixed line and mobile carriers. Domestic outbound call volumes increased by 14,466 million minutes, or 65%, to 36,816 million minutes in 2011 from 22,350 million minutes in 2010, while domestic inbound call volumes decreased by 87 million minutes, or 6%, to 1,350 million minutes in 2011 from 1,437 million minutes in 2010. The overall increase in domestic call traffic was due to higher call volumes resulting from unlimited voice offerings and the inclusion of Digitel's call traffic for the period from October 26, 2011 to December 31, 2011.

Revenues attributable to DMPI's domestic cellular voice service for the period from October 26, 2011 to December 31, 2011 amounted to Php1,396 million and accounted for 50% of DMPI's cellular service revenues. DMPI's domestic inbound and outbound call volumes were 55 million minutes and 2,590 million minutes, respectively, for the period from October 26, 2011 to December 31, 2011.

International voice service revenues decreased by Php1,188 million, or 7%, to Php16,480 million in 2011 from Php17,668 million in 2010, with a decline in international inbound voice service revenues by Php832 million, or 6%, to Php13,906 million in 2011 from Php14,738 million in 2010, as well as a decline in international outbound voice service revenues by Php356 million, or 12%, to Php2,574 million in 2011 from Php2,930 million in 2010. The decline in international voice service revenues was primarily 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 Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, partially offset by the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. Conversely, international inbound and outbound calls totaled 3,085 million minutes in 2011, an increase of 59 million minutes, or 2%, from 3,026 million minutes in 2010 mainly due to an increase in our cellular subscriber base.

Revenues attributable to DMPI's international cellular voice service for the period from October 26, 2011 to December 31, 2011 amounted to Php141 million and accounted for 9% of DMPI's cellular voice service revenues. DMPI's international inbound and outbound call volumes were 1 million minutes and 35 million minutes, respectively, for the period from October 26, 2011 to December 31, 2011.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php1 million to Php47,235 million in 2011 from Php47,236 million in 2010, primarily due to a decrease in text messaging revenues, partially offset by the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. Cellular data services accounted for 50% and 49% of our cellular service revenues in 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2011 and 2010:

	2011[1]	2010[2]	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php40,096	Php41,070	(Php974)	(2)
Bucket-Priced/Unlimited	23,164	23,836	(672)	(3)
Standard	16,932	17,234	(302)	(2)
International	3,612	3,534	78	2
	43,708	44,604	(896)	(2)
Value-added services				
Internet-based[3]	1,707	858	849	99
Pasa Load/Give-a-load[4]	664	483	181	37
SMS-based[5]	652	684	(32)	(5)
MMS-based[6]	458	568	(110)	(19)
	3,481	2,593	888	34
Financial services	46	39	7	18
Total	Php47,235	Php47,236	(Php1)	–

(1) *Includes DMPI's revenues for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*
(3) *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.*
(4) *Includes revenues from Pasa Load and Dial*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.*
(5) *Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.*
(6) *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.*

The following table shows the breakdown of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011:

	2011
	(in millions)
Text messaging	
Domestic	Php1,083
Bucket-Priced/Unlimited	678
Standard	405
International	37
	1,120
Value-added services	
Internet-based	67
SMS-based	31
MMS-based	1
Give-a-load	1
	100
Total	Php1,220

Text messaging-related services contributed revenues of Php43,708 million in 2011, a decrease of Php896 million, or 2%, as compared with Php44,604 million in 2010, and accounted for 92% and 94% of our total cellular data service revenues in 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS yields. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced/unlimited plans totaled Php23,164 million in 2011, a decrease of Php672 million, or 3%, as compared with Php23,836 million in 2010, primarily as a result of lower yields. Standard text messaging revenues decreased by Php302 million, or 2%, to Php16,932 million in 2011 from Php17,234 million in 2010, primarily as a result of decreased usage. 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.

DMPI's text messaging-related revenues contributed Php1,120 million and accounted for 92% of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011. Standard text messaging revenues amounted to Php405 million, while text messaging revenues from domestic bucket-priced/unlimited plans contributed Php678 million.

Bucket-priced/unlimited text messages increased by 9,954 million, or 3%, to 322,588 million in 2011 from 312,634 million in 2010 mainly due to DMPI's contribution of 8,235 million bucket-priced/unlimited text messages for the period from October 26, 2011 to December 31, 2011. On the other hand, standard text messages declined by 526 million, or 3%, to 17,793 million in 2011 from 18,319 million in 2010. The decline was partly offset by DMPI's contribution of 367 million standard text messages for the period from October 26, 2011 to December 31, 2011.

VAS contributed revenues of Php3,481 million in 2011, an increase of Php888 million, or 34%, as compared with Php2,593 million in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php849 million, or 99%, to Php1,707 million in 2011 from Php858 million in 2010, and *Pasa Load/Give-a-load* by Php181 million, or 37%, to Php664 million in 2011 from Php483 million in 2010.

Of VAS revenues, DMPI's VAS revenues amounted to Php100 million and accounted for 8% of DMPI's cellular data service revenues for the period from October 26, 2011 to December 31, 2011, primarily due to revenue contributions of Php67 million and Php31 million of DMPI's internet-based and SMS-based VAS, respectively.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2011, Smart, including *Talk 'N Text, Red Mobile* and *Sun Cellular* subscribers, totaled 63,696,629, an increase of 18,060,621, or 40%, over their combined cellular subscriber base of 45,636,008 as at December 31, 2010. Our cellular prepaid subscriber base grew by 16,578,359, or 37%, to 61,792,792 as at December 31, 2011 from 45,214,433 as at December 31, 2010, and our cellular postpaid subscriber base increased by 1,482,262, or 352%, to 1,903,837 as at December 31, 2011 from 421,575 as at December 31, 2010. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 13,314,096 and 1,353,089, respectively, as at December 31, 2011. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at December 31, 2011 and 2010, respectively.

Our net subscriber activations for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010	Increase (Decrease) Amount	%
Prepaid	3,264,263	4,321,335	(1,057,072)	(24)
Smart Prepaid	*1,279,694*	*1,530,629*	*(250,935)*	*(16)*
Talk 'N Text	*1,499,794*	*1,916,668*	*(416,874)*	*(22)*
Red Mobile	*484,775*	*874,038*	*(389,263)*	*(45)*
Postpaid	129,173	(13,968)	143,141	1,025
Smart	*128,910*	*(13,968)*	*142,878*	*1,023*
Red Mobile(1)	*263*	*–*	*263*	*100*
Total	3,393,436	4,307,367	(913,931)	(21)

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

Prepaid and postpaid subscribers reflected net activations of 3,264,263 and 129,173 subscribers, respectively, in 2011 as compared with net activations of 4,321,335 and net reductions of 13,968 in 2010. *Sun Cellular's* prepaid and postpaid subscribers reflected net activations of 338,759 and 49,697 subscribers, respectively, for the period from October 26, 2011 to December 31, 2011, which are not included in the net activation presented in the table above.

For *Smart Prepaid* subscribers, the average monthly churn rate in 2011 and 2010 were 5.1% and 5.0%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.5% and 5.3% in 2011 and 2010, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 17.4% and 26.9% in 2011 and 2010, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 2.1% and 2.4% for 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 years ended December 31, 2011 and 2010:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2011	**2010**	**Amount**	**%**	**2011**	**2010**	**Amount**	**%**
Prepaid								
Smart Prepaid	Php198	Php220	(Php22)	(10)	Php173	Php193	(20)	(10)
Talk 'N Text	124	139	(15)	(11)	109	122	(13)	(11)
Red Mobile	38	11	27	245	33	9	24	267
Prepaid – Blended[4]	162	183	(21)	(11)	142	161	(19)	(12)
Postpaid								
Smart Postpaid	1,548	1,678	(130)	(8)	1,511	1,638	(127)	(8)
Red Mobile[5]	373	–	373	100	373	–	373	100
Postpaid – Blended[6]	1,548	1,678	(130)	(8)	1,510	1,638	(128)	(8)
Prepaid and Postpaid Blended[7]	175	198	(23)	(12)	155	175	(20)	(11)

Sun Cellular's average monthly cellular ARPUs for the period from October 26, 2011 to December 31, 2011 were as follows:

	Gross[1]	Net[2]
Sun Cellular[3]		
Prepaid	Php75	Php65
Postpaid	450	447

(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, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month. Net monthly ARPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues.*
(3) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*
(4) *The average monthly ARPU of Smart Prepaid, Talk 'N Text and Red Mobile.*
(5) *Red Mobile postpaid was launched on March 17, 2011.*
(6) *The average monthly ARPU of Smart and Red Mobile postpaid.*
(7) *The average monthly ARPU of all prepaid and postpaid cellular subscribers except for Sun Cellular subscribers.*

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2011 was Php162, a decrease of 11%, as compared with Php183 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 2011 as compared with 2010. On a net basis, prepaid blended average monthly ARPU in 2011 was Php142, a decrease of 12%, as compared with Php161 in 2010.

Postpaid blended gross and net average monthly ARPU decreased to Php1,548 and Php1,510, respectively, in 2011 as compared with Php1,678 and Php1,638, respectively, in 2010. Prepaid and postpaid gross average monthly blended ARPU was Php175 in 2011, a decrease of 12%, as compared with Php198 in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 11% to Php155 in 2011 from Php175 in 2010.

Sun Cellular's prepaid gross and net average monthly ARPU for the period from October 26, 2011 to December 31, 2011 were Php75 and Php65, respectively, while postpaid gross and net average monthly ARPU for the period from October 26, 2011 to December 31, 2011 were Php450 and Php447, respectively.

Our average monthly prepaid and postpaid ARPUs per quarter in 2011 and 2010 were as follows:

	Prepaid						Postpaid			
	Smart Prepaid		Talk 'N Text		Red Mobile		Smart		Red Mobile[(1)]	
	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]
2011										
First Quarter	Php205	Php180	Php129	Php113	Php32	Php28	Php1,610	Php1,557	Php133	Php133
Second Quarter	203	179	126	111	43	38	1,638	1,576	413	413
Third Quarter	188	166	117	103	39	33	1,494	1,430	431	431
Fourth Quarter	194	166	124	109	39	34	1,452	1,480	355	355
2010										
First Quarter	232	204	140	122	11	9	1,686	1,666	–	–
Second Quarter	224	197	141	123	4	4	1,665	1,627	–	–
Third Quarter	207	181	135	118	6	5	1,661	1,614	–	–
Fourth Quarter	215	189	140	123	22	19	1,702	1,646	–	–

(1) *Red Mobile postpaid was launched on March 17, 2011.*
(2) *Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(3) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Note 2 – Summary of Significant Accounting Policies to the accompanying consolidated financial statements.*

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php517 million, or 8%, to Php6,804 million in 2011 from Php6,287 million in 2010, primarily due to the 53% growth in broadband subscriber base and as a result of the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011 of Php290 million, partially offset by a decline in ARPU.

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,068,409 subscribers as at December 31, 2011, an increase of 712,432 subscribers, or 53%, as compared with 1,355,977 subscribers as at December 31, 2010, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 200,972 and 251,084, respectively, as at December 31, 2011. Our postpaid wireless broadband subscriber base increased by 274,660 subscribers, or 64%, to 705,417 subscribers as at December 31, 2011 from 430,757 subscribers as at December 31, 2010, while our prepaid wireless broadband subscriber base increased by 437,772 subscribers, or 47%, to 1,362,992 subscribers as at December 31, 2011 from 925,220 subscribers as at December 31, 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.

DMPI's *Sun Broadband Wireless* service offers internet users an affordable high-speed broadband wireless service utilizing advanced 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* has plans and offerings ranging from Php350 to Php1,495 with speeds of up to 2 Mbps.

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php597 million, or 27%, to Php1,620 million in 2011 from Php2,217 million 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 Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 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 increased by Php112 million, or 8%, to Php1,469 million in 2011 as compared with Php1,357 million in 2010, primarily due to the effect of the inclusion of DMPI's non-service revenues of Php86 million for the period from October 26, 2011 to December 31, 2011, as well as the increase in cellular handset/SIM-pack activations, partially offset by a lower quantity of broadband data modems sold.

Expenses

Expenses associated with our wireless business in 2011, which includes DMPI's expenses of Php3,083 million, amounted to Php71,049 million, an increase of Php11,242 million, or 19%, from Php59,807 million in 2010. A significant portion of this increase was attributable to higher expenses related to asset impairment, as well as higher selling and promotions, depreciation and amortization, cost of sales, repairs and maintenance, and taxes and licenses, partially offset by lower expenses related to compensation and employee benefits, rent and interconnection costs. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 57% in 2011 and 2010, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item in relation to the total:

	2011[1]	%	2010[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php14,295	20	Php13,243	22	Php1,052	8
Interconnection costs	9,604	14	10,194	17	(590)	(6)
Asset impairment	9,197	13	824	1	8,373	1,016
Rent	8,251	12	9,038	15	(787)	(9)
Selling and promotions	6,144	9	3,809	6	2,335	61
Repairs and maintenance	5,643	8	5,058	9	585	12
Compensation and employee benefits[3]	5,248	7	6,385	11	(1,137)	(18)
Cost of sales	4,267	6	3,587	6	680	19
Professional and other contracted services	3,176	5	3,104	5	72	2
Taxes and licenses	2,233	3	1,681	3	552	33
Communication, training and travel	1,022	1	946	2	76	8
Insurance and security services	847	1	831	1	16	2
Amortization of intangible assets	108	–	134	–	(26)	(19)
Other expenses	1,014	1	973	2	41	4
Total	Php71,049	100	Php59,807	100	Php11,242	19

(1) *Includes DMPI's expenses for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the transfer of PCEV from Wireless to Others' business segment, as discussed in the "Overview" section.*
(3) *Includes salaries and employee benefits, LTIP, pension and manpower rightsizing program, or MRP, costs.*

The following table summarizes the breakdown of DMPI's wireless-related expenses for the period from October 26, 2011 to December 31, 2011 and the percentage of each expense item in relation to the total:

	2011	%
	(in millions)	
Depreciation and amortization	Php907	29
Interconnection costs	425	14
Cost of sales	412	13
Repairs and maintenance	398	13
Selling and promotions	278	9
Compensation and employee benefits	219	7
Rent	199	7
Professional and other contracted services	74	2
Taxes and licenses	64	2
Communication, training and travel	48	2
Asset impairment	37	1
Insurance and security services	8	–
Other expenses	14	1
Total	Php3,083	100

Depreciation and amortization charges increased by Php1,052 million, or 8%, to Php14,295 million on account of higher depreciation charges on cellular network facilities, business and operations support systems and the inclusion of DMPI's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011.

Interconnection costs decreased by Php590 million, or 6%, to Php9,604 million primarily due to an increase in inter-operator rebates and a decrease in interconnection charges, outbound traffic for domestic and international calls and roaming SMS, partially offset by the inclusion of DMPI's interconnection costs for the period from October 26, 2011 to December 31, 2011.

Asset impairment increased by Php8,373 million to Php9,197 million primarily due to impairment charges on certain network equipment and facilities as a result of the network modernization program by Smart, higher provision for inventory obsolescence, partly offset by lower provision for uncollectible receivables.

Rent expenses decreased by Php787 million, or 9%, to Php8,251 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in satellite and building rental, partially offset by the increase in cell site, leased line and pole charges and the inclusion of DMPI's rent expenses for the period from October 26, 2011 to December 31, 2011. In 2011, we had 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 4,918 fixed wireless broadband-enabled base stations, which includes DMPI's 4,414 cell sites, 4,376 cellular/mobile broadband base stations and 2,132 fixed wireless broadband-enabled base stations, as compared with 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations in 2010.

Selling and promotion expenses increased by Php2,335 million, or 61%, to Php6,144 million primarily due to the inclusion of DMPI's selling and promotions expense for the period from October 26, 2011 to December 31, 2011 and higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Repairs and maintenance expenses increased by Php585 million, or 12%, to Php5,643 million mainly due to the inclusion of DMPI's repairs and maintenance expense for the period from October 26, 2011 to December 31, 2011, higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and other work equipment, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Compensation and employee benefits expenses decreased by Php1,137 million, or 18%, to Php5,248 million primarily due to lower LTIP, salaries and employee benefits, and lower MRP costs, partially offset by the inclusion of DMPI's compensation and employee benefit expenses for the period from October 26, 2011 to December 31, 2011 and higher provision for pension benefits. Employee headcount increased to 8,043 as at December 31, 2011 as compared with 5,165 as at December 31, 2010, primarily due to the inclusion of DMPI's headcount of 2,782 as at December 31, 2011.

Cost of sales increased by Php680 million, or 19%, to Php4,267 million primarily due to the inclusion of DMPI's cost of sales for the period from October 26, 2011 to December 31, 2011 and higher cellular activation and broadband retention cost, partly offset by lower quantity and average cost of broadband modems sold.

Professional and other contracted service fees increased by Php72 million, or 2%, to Php3,176 million primarily due to the increase in consultancy, contracted service, outsourced service, and market research fees, and the inclusion of DMPI's professional and other contracted service fees for the period from October 26, 2011 to December 31, 2011, partly offset by lower management, customer relationship management service, technical and legal services, and other professional service fees.

Taxes and licenses increased by Php552 million, or 33%, to Php2,233 million primarily due to higher business-related taxes and license fees and the inclusion of DMPI's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Communication, training and travel expenses increased by Php76 million, or 8%, to Php1,022 million primarily due to higher courier charges, travel expenses, fuel consumption for vehicles, and the inclusion of DMPI's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 partially offset by lower communication, training, and freight and hauling expenses.

Insurance and security services increased by Php16 million, or 2%, to Php847 million primarily due to higher site security expense, and the inclusion of DMPI's insurance and security expenses for the period from October 26, 2011 to December 31, 2011, partially offset by lower insurance premiums.

Amortization of intangible assets decreased by Php26 million, or 19%, to Php108 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka in 2010.

Other expenses increased by Php41 million, or 4%, to Php1,014 million primarily due to higher various business and operational-related expenses and the inclusion of DMPI's other operational expenses for the period from October 26, 2011 to December 31, 2011.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other expenses for the years ended December 31, 2011 and 2010:

			Change	
	2011	2010[(1)]	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php677	Php551	Php126	23
Gains (losses) on derivative financial instruments – net	(10)	3	(13)	(433)
Equity share in net losses of associates	(115)	(7)	(108)	1,543
Foreign exchange gains (losses) – net	(720)	888	(1,608)	(181)
Financing costs – net	(2,744)	(2,681)	(63)	2
Others	1,218	1,110	108	10
Total	(Php1,694)	(Php136)	(Php1,558)	1,146

[(1)] *The 2010 other income and expenses have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in the "Overview" section.*

Our wireless business' other expenses amounted to Php1,694 million in 2011, which includes other expenses from DMPI amounting to Php764 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,558 million from Php136 million in 2010, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php720 million in 2011 as against net foreign exchange gains of Php888 million in 2010 on account of revaluation of foreign currency-denominated assets and liabilities due to the inclusion of losses on revaluation of dollar-denominated net liabilities of DMPI for the period from October 26, 2011 to December 31, 2011, and lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) increase in equity share in net losses of associates by Php108 million; (iii) higher net financing costs by Php63 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level of loan balances, and lower average interest and foreign exchange rates; (iv) an increase in interest income by Php126 million mainly due to a higher average level of peso and dollar short-term investments and a higher average interest rate in 2011; and (v) an increase in other income by Php108 million mainly due to reversal of prior year's accrual of LTIP, partially offset by lower rental and consultancy income, and lower gains on disposal of fixed assets and insurance claims.

Provision for Income Tax

Provision for income tax decreased by Php2,984 million, or 26%, to Php8,429 million in 2011 from Php11,413 million in 2010 primarily due to lower taxable income and increased savings from the use of the optional standard deduction method in computing taxable income. The effective tax rate for our wireless business was 27% and 25% in 2011 and 2010, respectively.

Net Income

As a result of the foregoing, our wireless business recorded a net income of Php22,366 million in 2011, including a net of loss from DMPI of Php405 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php11,659 million, or 34%, from Php34,025 million recorded in 2010.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php3,571 million, or 6%, to Php55,393 million in 2011, which includes EBITDA from DMPI of Php1,137 million for the period from October 26, 2011 to December 31, 2011, from Php58,964 million in 2010.

Core Income

Our wireless business' core income decreased by Php3,449 million, or 10%, to Php29,903 million in 2011, which includes core income from DMPI amounting to Php154 million for the period from October 26, 2011 to December 31, 2011, from Php33,352 million in 2010 on account of an increase in wireless-related expenses, lower wireless revenues and higher other expenses, partially offset by lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php60,006 million in 2011, including revenues from Digitel of Php706 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php152 million from Php60,158 million in 2010.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2011 and 2010 by service segment:

					Increase (Decrease)	
	2011[1]	**%**	**2010[2]**	**%**	**Amount**	**%**
			(in millions)			
Service Revenues:						
Local exchange	Php15,108	25	Php15,342	25	(Php234)	(2)
International long distance	11,243	19	11,112	18	131	1
National long distance	5,525	9	6,487	11	(962)	(15)
Data and other network	24,093	40	22,785	38	1,308	6
Miscellaneous	2,816	5	3,399	6	(583)	(17)
	58,785	98	59,125	98	(340)	(1)
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,221	2	1,033	2	188	18
Total Fixed Line Revenues	Php60,006	100	Php60,158	100	(Php152)	–

(1) Includes Digitel's revenues for the period from October 26, 2011 to December 31, 2011.
(2) The 2010 revenues have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business, as discussed in the "Financial Highlights and Key Performance Indicators" section.

The following table summarizes the revenue contribution of Digitel to our fixed line business for the period from October 26, 2011 to December 31, 2011 by service segment:

	2011 (in millions)	%
Fixed Line Services:		
Service Revenues:		
Local exchange	Php178	25
International long distance	239	34
National long distance	68	10
Data and other network	221	31
Total Fixed Line Revenues	706	100

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 Php340 million, or 1%, to Php58,785 million in 2011, which includes service revenues from Digitel amounting to Php706 million for the period from October 26, 2011 to December 31, 2011, from Php59,125 million in 2010 due to decreases in revenues from our national long distance, local exchange, and miscellaneous services, partially offset by increases in the revenue contribution of our data and other network, and international long distance services.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2011 and 2010:

	2011[1]	2010[2]	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php15,108	Php15,342	(Php234)	(2)
Number of fixed line subscribers	2,166,295	1,822,105	344,190	19
Postpaid	2,029,359	1,703,998	325,361	19
Prepaid	136,936	118,107	18,829	16
Number of fixed line employees	9,072	7,395	1,677	23
Number of fixed line subscribers per employee	239	246	(7)	(5)

(1) *Includes Digitel's revenues, subscriber base and employee headcount as at and for the period from October 26, 2011 to December 31, 2011.*

(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table summarizes the key measures of Digitel's local exchange service business as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011:

	2011
Total local exchange service revenues (in millions)	Php178
Number of fixed line subscribers	296,395
Postpaid	248,648
Prepaid	47,747
Number of fixed line employees	1,586
Number of fixed line subscribers per employee	187

Revenues from our local exchange service decreased by Php234 million, or 2%, to Php15,108 million in 2011 from Php15,342 million 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 a decrease in installation charges, partially offset by the increase in postpaid wired and *PLP* lines and the effect of the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. *PLP* wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. Similar to our *PLP* wireless service, Digitel's *SunTel* wireless landline offers unlimited landline to landline calls with the convenience of limited mobility. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of 2011 and 2010.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2011 and 2010:

			Increase (Decrease)	
	2011[(1)]	**2010**[(2)]	**Amount**	**%**
Total international long distance service revenues (in millions)	Php11,243	Php11,112	Php131	1
Inbound	10,217	9,851	366	4
Outbound	1,026	1,261	(235)	(19)
International call volumes (in million minutes, except call ratio)	1,939	1,714	225	13
Inbound	1,765	1,515	250	17
Outbound	174	199	(25)	(13)
Inbound-outbound call ratio	10.1:1	7.6:1	–	–

(1) *Includes Digitel's revenues of Php239 million and call volumes of 58 million minutes for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

Our total international long distance service revenues increased by Php131 million, or 1%, to Php11,243 million in 2011, which includes revenues from Digitel amounting to Php239 million for the period from October 26, 2011 to December 31, 2011, from Php11,112 million in 2010, primarily due to the increase in inbound call traffic volumes, partially offset by the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 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 19% in each of 2011 and 2010.

Our revenues from inbound international long distance service increased by Php366 million, or 4%, to Php10,217 million in 2011 from Php9,851 million in 2010 due to an increase in inbound call volumes and increase in the average settlement rate, as well as the inclusion of Digitel's inbound international long distance service revenues of Php234 million for the period from October 26, 2011 to December 31, 2011, partially offset by the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar.

Our revenues from outbound international long distance service decreased by Php235 million, or 19%, to Php1,026 million in 2011 from Php1,261 million in 2010, primarily due to the decline in outbound call volumes, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, resulting in a decrease in the average billing rates to Php43.34 in 2011 from Php45.31 in 2010 and decrease 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 years ended December 31, 2011 and 2010:

	2011[1]	2010[2]	Decrease Amount	Decrease %
Total national long distance service revenues (in millions)	Php5,525	Php6,487	(Php962)	(15)
National long distance call volumes (in million minutes)	1,040	1,290	(250)	(19)

[1] *Includes Digitel's revenues of Php68 million and call volumes of 18 million minutes for the period from October 26, 2011 to December 31, 2011.*
[2] *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

Our national long distance service revenues decreased by Php962 million, or 15%, to Php5,525 million in 2011 from Php6,487 million in 2010, primarily due to a decrease in call volumes, partially offset by the inclusion of Digitel's national long distance service revenues for the period from October 26, 2011 to December 31, 2011 and an increase in the average revenue per minute of our national long distance services due to the 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% and 11% in 2011 and 2010, respectively.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2011 and 2010:

	2011[1]	2010[2]	Increase (Decrease) Amount	Increase (Decrease) %
Data and other network service revenues (in millions)	Php24,093	Php22,785	Php1,308	6
Domestic	16,647	15,646	1,001	6
Broadband	*9,940*	*8,511*	*1,429*	*17*
DSL	9,664	8,263	1,401	17
WeRoam	276	248	28	11
Leased Lines and Others	*6,707*	*7,135*	*(428)*	*(6)*
International				
Leased Lines and Others	*6,310*	*6,241*	*69*	*1*
Vitro™ Data Center	1,136	898	238	27
Subscriber base				
Broadband	*859,960*	*665,027*	*194,933*	*29*
DSL	842,273	643,048	199,225	31
WeRoam	17,687	21,979	(4,292)	(20)
SWUP	*20,153*	*15,641*	*4,512*	*29*

[1] *Includes Digitel's revenues and subscriber base as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011.*
[2] *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table shows Digitel's contribution to our data and other network service revenues and subscriber base as at December 31, 2011 and for the period from October 26, 2011 to December 31, 2011:

	2011
Data and other network service revenues (in millions)	Php221
Domestic	215
Broadband – Sun DSL	*132*
Leased Lines and Others	*83*
International	
Leased Lines and Others	*6*
DSL Subscriber base	99,367

Our data and other network services posted revenues of Php24,093 million in 2011, which includes revenues from Digitel of Php221 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,308 million, or 6%, from Php22,785 million in 2010, primarily due to higher revenues from *PLDT DSL*, an increase in international data revenues primarily due to higher revenues from Fibernet and ISDN, and the inclusion of Digitel's data and other network service revenues for the period from October 26, 2011 to December 31, 2011, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues accounted for 41% and 38% in 2011 and 2010, respectively.

Domestic

Domestic data services contributed Php16,647 million in 2011, an increase of Php1,001 million, or 6%, as compared with Php15,646 million in 2010 mainly due to higher DSL revenues, internet protocol-virtual private network, or IP-VPN, and *Shops.Work Unplugged*, or *SWUP*, subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased and the inclusion of Digitel's domestic data revenues of Php215 million for the period from October 26, 2011 to December 31, 2011, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services accounted for 69% in each of 2011 and 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/HSPA+ and WiFi technologies). Broadband data revenues amounted to Php9,940 million in 2011, including Digitel's broadband data revenues of Php132 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,429 million, or 17%, from Php8,511 million in 2010, primarily due to the higher revenue contribution of DSL which contributed revenues of Php9,664 million in 2011 from Php8,263 million in 2010 as a result of the increase in the number of subscribers by 31% to 842,273 subscribers as at December 31, 2011 from 643,048 subscribers in 2010, including Digitel's DSL subscriber base of 99,367 as at December 31, 2011. DSL revenues accounted for 40% and 37% of total data and other network service revenues in 2011 and 2010, respectively. *WeRoam* revenues amounted to Php276 million in 2011, an increase of Php28 million, or 11%, from Php248 million in 2010 in contrast to a decrease in subscriber base by 20% to 17,687 subscribers in 2011 from 21,979 subscribers 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 December 31, 2011, *SWUP* has a total subscriber base of 20,153 up by 29% from 15,641 subscribers in 2010. Leased lines and other data revenues amounted to Php6,707 million in 2011, a decrease of Php428 million, or 6%, from Php7,135 million in 2010, primarily due to a decrease in Diginet revenues, partially offset by the inclusion of Digitel's leased line data revenues of Php83 million for the period from October 26, 2011 to December 31, 2011, and higher revenues from IP-VPN and *SWUP*. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 28% and 31% in 2011 and 2010, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php69 million, or 1%, to Php6,310 million in 2011 from Php6,241 million in 2010, primarily resulting from the growth in international managed data services, higher Fibernet and ISDN revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php6 million for the period from October 26, 2011 to December 31, 2011, partially offset by the termination of transponder sub-lease agreement with customers, a decrease in revenues from i-Gate and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 26% and 27% in 2011 and 2010, respectively.

Vitro™ Data Center

Vitro™ data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php238 million, or 27%, to Php1,136 million in 2011 from Php898 million in 2010 mainly due to higher co-location and managed services.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues decreased by Php583 million, or 17%, to Php2,816 million in 2011 from Php3,399 million in 2010 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of investments in Digital Paradise and

Level Up!, as well as lower rental and facilities management fees, and directory advertising, partially offset by the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), and the revenue contribution of PGNL, the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, and distributes these media content via syndication and via its international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 5% and 6% in 2011 and 2010, respectively.

Non-service Revenues

Non-service revenues increased by Php188 million, or 18%, to Php1,221 million in 2011 from Php1,033 million in 2010, primarily due to the sale of several managed PABX and *OnCall* solution in 2011, no similar transactions were recognized in 2010, as well as higher computer-bundled sales, partially offset by lower sale of *PLP* units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php50,620 million in 2011, which includes expenses from Digitel amounting to Php726 million for the period from October 26, 2011 to December 31, 2011, an increase of Php377 million, or 1%, as compared with Php50,243 million in 2010. The increase was primarily due to higher expenses related to professional and other contracted services, depreciation and amortization, interconnection costs, taxes and licenses, asset impairment, repairs and maintenance, and selling and promotions, partly offset by lower expenses related to compensation and employee benefits, and rent. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% in each of 2011 and 2010.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2011[(1)]	**%**	**2010**[(2)]	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php13,244	26	Php12,638	25	Php606	5
Compensation and employee benefits[(3)]	9,855	20	12,770	25	(2,915)	(23)
Interconnection costs	8,471	17	7,947	16	524	7
Repairs and maintenance	5,116	10	4,886	10	230	5
Professional and other contracted services	4,043	8	3,297	7	746	23
Rent	2,689	5	2,762	5	(73)	(3)
Selling and promotions	1,665	3	1,439	3	226	16
Taxes and licenses	1,319	3	825	2	494	60
Cost of sales	1,178	2	1,184	2	(6)	(1)
Asset impairment	1,003	2	596	1	407	68
Communication, training and travel	780	2	754	2	26	3
Insurance and security services	577	1	454	1	123	27
Amortization of intangible assets	32	–	29	–	3	10
Other expenses	648	1	662	1	(14)	(2)
Total	Php50,620	100	Php50,243	100	Php377	1

(1) *Includes Digitel's expenses for the period from October 26, 2011 to December 31, 2011.*
(2) *The 2010 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*
(3) *Includes salaries and employee benefits, LTIP, pension and MRP costs.*

The following table summarizes the breakdown of Digitel's fixed line-related expenses for the period from October 26, 2011 to December 31, 2011 and the percentage of each expense item to the total:

	2011 (in millions)	%
Repairs and maintenance	Php184	25
Rent	89	12
Depreciation and amortization	88	12
Compensation and employee benefits	84	12
Taxes and licenses	68	9
Interconnection costs	65	9
Professional and other contracted services	35	5
Communication, training and travel	32	4
Selling and promotions	25	4
Cost of Sales	20	3
Insurance and security services	14	2
Asset impairment	10	1
Other expenses	12	2
Total	Php726	100

Depreciation and amortization charges increased by Php606 million, or 5%, to Php13,244 million due to a higher depreciable asset base and the effect of the inclusion of Digitel's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011 as compared with 2010.

Compensation and employee benefits expenses decreased by Php2,915 million, or 23%, to Php9,855 million primarily due to lower MRP and reversal of LTIP costs, lower salaries and employee benefits, and pension costs, partially offset by the effect of the inclusion of Digitel's compensation and employee benefits expenses for the period from October 26, 2011 to December 31, 2011. Conversely, employee headcount increased to 11,409 in 2011 as compared with 9,572 in 2010 mainly due to Digitel's headcount of 1,586.

Interconnection costs increased by Php524 million, or 7%, to Php8,471 million primarily due to higher international received paid calls that terminated to other domestic carriers, as well as higher settlement to various foreign administrations.

Repairs and maintenance expenses increased by Php230 million, or 5%, to Php5,116 million primarily due to higher maintenance costs of central office/telecom equipment, site electricity charges and fuel consumption cost, and the effect of the inclusion of Digitel's repairs and maintenance expenses for the period from October 26, 2011 to December 31, 2011, partially offset by lower office electricity charges, maintenance costs on IT hardware and software, and buildings.

Professional and other contracted service expenses increased by Php746 million, or 23%, to Php4,043 million primarily due to higher consultancy and contracted services in relation with the acquisition of Digitel, and customer relationship management service fees, and the effect of the inclusion of Digitel's professional and other contracted fees for the period from October 26, 2011 to December 31, 2011, partially offset by lower legal fees and outsource cost.

Rent expenses decreased by Php73 million, or 3%, to Php2,689 million due to a decrease in satellite link, site and pole rental charges, partially offset by an increase in leased circuits and office building rental charges and the effect of the inclusion of Digitel's rent expenses for the period from October 26, 2011 to December 31, 2011.

Selling and promotion expenses increased by Php226 million, or 16%, to Php1,665 million primarily due to higher public relations expenses, as well as higher spending on advertising and promotions, and public relations and commission expenses and the effect of the inclusion of Digitel's selling and promotions expenses for the period from October 26, 2011 to December 31, 2011.

Taxes and licenses increased by Php494 million, or 60%, to Php1,319 million as a result of higher business-related taxes and the effect of the inclusion of Digitel's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Cost of sales decreased by Php6 million, or 1%, to Php1,178 million primarily due to lower sales of *PLP* units and SIM cards, partially offset by the sale of several managed PABX and *OnCall* solutions in 2011; no similar transactions were recognized in 2010, as well as higher computer-bundled sales in relation to our DSL promotions.

Asset impairment increased by Php407 million, or 68%, to Php1,003 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables for the period from October 26, 2011 to December 31, 2011, partially offset by lower impairment charges on payphone assets and investment in 2010.

Communication, training and travel expenses increased by Php26 million, or 3%, to Php780 million mainly due to the effect of the inclusion of Digitel's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 and increases in foreign travel expenses, mailing and courier charges, and fuel consumption, partially offset by lower training and local travel expenses, and communication charges.

Insurance and security services increased by Php123 million, or 27%, to Php577 million primarily due to higher insurance and bond premiums, security services and the effect of the inclusion of Digitel's insurance and security expenses for the period from October 26, 2011 to December 31, 2011.

Amortization of intangible assets increased by Php3 million, or 10%, Php32 million primarily due to amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI and Infocom in 2011.

Other expenses decreased by Php14 million, or 2%, to Php648 million primarily due to lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2011 and 2010:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php590	Php499	Php91	18
Equity share in net earnings of associates	307	186	121	65
Gains (losses) on derivative financial instruments – net	211	(1,744)	1,955	112
Foreign exchange gains (losses) – net	(15)	985	(1,000)	(102)
Financing costs – net	(3,710)	(3,864)	154	(4)
Others	2,024	1,244	780	63
Total	(Php593)	(Php2,694)	Php2,101	(78)

Our fixed line business' other expenses amounted to Php593 million in 2011, which includes other expenses from Digitel amounting to Php2,240 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php2,101 million, or 78%, from Php2,694 million in 2010. The decrease was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php211 million in 2011 as against net losses on derivative financial instruments of Php1,744 million in 2010 due to the effect of wider dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in 2011; (ii) an increase in other income by Php780 million mainly due to the reversal of prior year's LTIP accrual, pension benefit income recognized by PLDT in 2011 and a gain on sale of investments in Level Up! and Digital Paradise; (iii) a decrease in net financing costs by Php154 million due to a decrease in interest expense on loans and related items on account of lower average interest rates, partially offset by higher average level of loan balances; (iv) increase in equity share in net earnings of associates and joint ventures of Php121 million mainly due to the share in net earnings of Philweb Corporation, or Philweb, and Digitel's reversal of impairment on investment in Digitel Crossing, Inc., and; (v) an increase in interest income by Php91 million due to a higher average level of peso and dollar short-term investments and higher average peso interest rates, and impact of the depreciation of the Philippine peso on dollar placements; and (vi) net foreign exchange losses of Php15 million in 2011 as against net foreign exchange gains of Php985 million in 2010 on account of lower gains on net foreign exchange revaluation of foreign currency-denominated assets due to the effect of the depreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax, net of benefit from income tax from Digitel amounting to Php18 million for the period from October 26, 2011 to December 31, 2011, amounted to Php2,491 million in 2011, an increase of Php415 million, or 20%, as compared with Php2,076 million in 2010, primarily due to higher taxable income. The effective tax rate of our fixed line business accounted for 28% and 29% in 2011 and 2010, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,302 million in 2011, net of loss from Digitel amounting to Php2,242 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,157 million, or 22%, as compared with Php5,145 million in 2010.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php372 million, or 2%, to Php22,675 million in 2011, which includes EBITDA from Digitel of negative Php60 million for the period from October 26, 2011 to December 31, 2011, from Php23,047 million in 2010.

Core Income

Our fixed line business' core income decreased by Php80 million, or 1%, to Php5,765 million in 2011, which includes core income from Digitel amounting to negative Php397 million for the period from October 26, 2011 to December 31, 2011, from Php5,845 million in 2010, primarily as a result of a decrease in fixed line revenues, an increase in fixed line expenses, and higher provision for income tax and financing costs, partially offset by a decrease in other expenses.

Business Process Outsourcing

Revenues

Our BPO business provides knowledge processing solutions and customer relationship management.

Our BPO business generated revenues of Php8,588 million in 2011, an increase of Php476 million, or 6%, as compared with Php8,112 million in 2010. This increase was primarily due to higher revenue contributions from our knowledge processing solutions and customer relationship management businesses.

The following table summarizes our total revenues from our BPO business for the years ended December 31, 2011 and 2010 by service segment:

	2011	%	2010[1]	%	Increase Amount	Increase %
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php5,721	67	Php5,289	65	Php432	8
Customer relationship management	2,867	33	2,823	35	44	2
Total BPO Revenues	Php8,588	100	Php8,112	100	Php476	6

[1] *The 2010 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in the "Overview" section.*

Service Revenues

Service revenues generated by our BPO business amounted to Php8,588 million in 2011, an increase of Php476 million, or 6%, as compared with Php8,112 million in 2010, primarily as a result of the continued growth in our knowledge processing solutions, and customer relationship management businesses.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php5,721 million in 2011, an increase of Php432 million, or 8%, from Php5,289 million in 2010. Dollar-denominated revenues increased by 13% mainly due to a higher content services and medical billing, partially offset by the appreciation of the Philippine peso to the U.S. dollar by 4%. Knowledge processing solutions business revenues accounted for 67% and 65% of total revenues of our BPO business in 2011 and 2010, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In 2011, SPi CRM changed its functional currency from Philippine Peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php44 million, or 2%, to Php2,867 million in 2011 from Php2,823 million in 2010, primarily due to higher domestic sales by 10%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 5,959 seats with an average of 3,360 customer service representatives, or CSRs, in 2011, as compared with 7,045 seats with an average of 4,592 CSRs in 2010. SPi CRM has six customer relationship management sites as at December 31, 2011 and 2010. Customer relationship management business revenues accounted for 33% and 35% of total revenues of our BPO business in 2011 and 2010, respectively.

Expenses

Expenses associated with our BPO business totaled Php7,598 million in 2011, a decrease of Php883 million, or 10%, as compared with Php8,481 million in 2010, primarily due to lower expenses related to asset impairment, amortization of intangible assets, repairs and maintenance, rent, and taxes and licenses, partially offset by higher expenses related to compensation and employee benefits, professional and other contracted services, and depreciation and amortization. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 88% and 105% in 2011 and 2010, respectively.

The following table shows the breakdown of our total BPO-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2011	**%**	**2010[1]**	**%**	**Amount**	**%**
			(in millions)			
Compensation and employee benefits[2]	Php5,062	67	Php4,922	58	Php140	3
Professional and other contracted services	538	7	427	5	111	26
Rent	423	6	445	5	(22)	(5)
Depreciation and amortization	418	5	396	5	22	6
Repairs and maintenance	379	5	404	5	(25)	(6)
Communication, training and travel	344	4	335	4	9	3
Amortization of intangible assets	147	2	225	2	(78)	(35)
Insurance and security services	58	1	59	1	(1)	(2)
Taxes and licenses	43	1	63	1	(20)	(32)
Selling and promotions	40	–	40	–	–	–
Asset impairment	9	–	1,018	12	(1,009)	(99)
Other expenses	137	2	147	2	(10)	(7)
Total	Php7,598	100	Php8,481	100	(Php883)	(10)

(1) *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

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

Compensation and employee benefits increased by Php140 million, or 3%, to Php5,062 million mainly due to higher salaries and benefits, partially offset by a decline in MRP costs and provision for pension costs. BPO employee headcount increased by 631, or 4%, to 14,664 in 2011 as compared with 14,033 in 2010.

Professional and other contracted services increased by Php111 million, or 26%, to Php538 million primarily due to higher contracted service and consultancy fees, as well as professional fees for services rendered on the sale of the medical transcription business and the purchase of Laserwords.

Rent expenses decreased by Php22 million, or 5%, to Php423 million primarily due to lower office building and domestic leased circuit rental charges.

Depreciation and amortization increased by Php22 million, or 6%, to Php418 million primarily due to CRM's purchase in 2011 of PBX Avaya 6.2 upgrade, IP phones and various computers and peripherals.

Repairs and maintenance expenses decreased by Php25 million, or 6%, to Php379 million primarily due to decrease in repairs and maintenance costs of site facilities and buildings particularly from our customer relationship management business, as well as a decrease in site electricity charges, partially offset by higher IT software and hardware repairs and maintenance costs.

Communication, training and travel expenses increased by Php9 million, or 3%, to Php344 million primarily due to higher travel expenses, communication, and mailing and courier charges, partially offset by lower local training expenses and fuel consumption costs.

Amortization of intangible assets decreased by Php78 million, or 35%, to Php147 million due to the full impairment of intangible assets related to CyMed in December 2010.

Insurance and security service expenses decreased by Php1 million, or 2%, to Php58 million primarily due to lower expenses on security services, partially offset by higher insurance and bond premiums.

Taxes and licenses decreased by Php20 million, or 32% to Php43 million due to lower business-related taxes in 2011.

Asset impairment decreased by Php1,009 million, or 99%, to Php9 million primarily due to customer relationship management's and knowledge processing solutions' asset impairment of unutilized business tax benefits in 2010.

Other expenses decreased by Php10 million, or 7%, to Php137 million mainly due to lower various business operational-related costs.

Other Income

The following table summarizes the breakdown of our total BPO-related other income for the years ended December 31, 2011 and 2010:

			Change	
	2011	**2010[1]**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php15	Php20	(Php5)	(25)
Loss on derivative financial instruments – net	(4)	–	(4)	(100)
Foreign exchange losses – net	(9)	(43)	34	(79)
Financing costs	(37)	(168)	131	(78)
Others	147	234	(87)	(37)
Total	Php112	Php43	Php69	160

[1] *The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Our BPO business' other income amounted to Php112 million in 2011, an increase of Php69 million, or 160%, from Php43 million in 2010, primarily due to the combined effects of the following: (i) a decrease in financing costs by Php131 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (ii) decrease in net foreign exchange losses by Php34 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 2011; (iii) net losses on derivative financial instruments of Php4 million in 2011 due to mark-to-market loss from forward foreign exchange contracts; (iv) a decrease in interest income by Php5 million due to lower interest earned; and (v) a decrease in other income by Php87 million mainly due to lower de-recognition of liabilities, partially offset by a gain on sale of SPi's medical transcription business.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php118 million in 2011 as against a benefit from income tax of Php64 million in 2010, primarily due to higher taxable income in 2011, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords Private Ltd. for the period from November 1, 2011 to December 31, 2011.

Net Income

As a result of the foregoing, our BPO business registered a net income of Php984 million, an increase of Php1,246 million, or 476%, in 2011 as against a net loss of Php262 million in 2010.

EBITDA

As a result of the foregoing, our BPO business' EBITDA increased by Php288 million, or 23%, to Php1,558 million in 2011 from Php1,270 million in 2010.

Core Income

Our BPO business' core income amounted to Php906 million in 2011, an increase of Php141 million, or 18%, as compared with Php765 million in 2010 mainly as a result of increases in BPO revenues and other income, partially offset by an increase in BPO-related expenses and provision for income tax.

Others

Expenses

Expenses associated with our other business totaled Php11 million in 2011, a decrease of Php8 million, or 42%, as compared with Php19 million in 2010, primarily due to PCEV's lower expenses related to communication, as well as professional and other contracted services.

Other Income

The following table summarizes the breakdown of other income for other services for the years ended December 31, 2011 and 2010:

			Change	
	2011	**2010**[(1)]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,843	Php1,229	Php614	50
Interest income	90	147	(57)	(39)
Financing costs	–	(2)	2	100
Foreign exchange losses – net	–	(23)	23	100
Others	65	20	45	225
Total	Php1,998	Php1,371	Php627	46

(1) The 2010 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.

Other income increased by Php627 million, or 46%, to Php1,998 million in 2011 from Php1,371 million in 2010 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php614 million mainly due to the increase in PCEV's direct and indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; (ii) an increase in other income by Php45 million; (iii) net losses on foreign exchange revaluation in 2010 of Php23 million by our PCEV business; and (iv) a decrease in interest income by Php57 million as a result of lower average level of investments by our PCEV business.

For the year ended December 31, 2011, Meralco's reported and core income amounted to Php13,227 million and Php14,887 million, respectively, as compared with Php9,685 million and

Php12,155 million, respectively, in 2010. These results were due primarily to an increase in billed customers as compared with 2010 and the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission for 2011. PCEV's share in the reported and core income of Meralco, including its share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,843 million and Php2,319 million, respectively, in 2011 and Php1,229 million and Php1,928 million, respectively, in 2010. PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares and 68.8 million shares were transferred on May 12, 2010 and October 25, 2011, respectively, to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010.

Net Income

As a result of the foregoing, other services registered a net income of Php1,985 million, an increase of Php634 million, or 47%, in 2011 from Php1,351 million in 2010.

EBITDA

As a result of the foregoing, EBITDA from other services decreased by Php8 million, or 42%, to negative Php11 million in 2011 from negative Php19 million in 2010.

Core Income

Other services' core income amounted to Php2,461 million in 2011, an increase of Php395 million, or 19%, as compared with Php2,066 million in 2010 mainly as a result of higher other income and a decrease in 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 years ended December 31, 2011 and 2010, as well as our consolidated capitalization and other consolidated selected financial data as at December 31, 2011 and 2010:

	Years ended December 31,	
	2011	2010
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php79,209	Php77,260
Net cash used in investing activities	29,712	23,283
Capital expenditures	*31,207*	*28,766*
Net cash used in financing activities	40,204	55,322
Net increase (decrease) in cash and cash equivalents	9,379	(1,641)

	December 31,	
	2011	2010
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php91,273	Php75,879
Obligations under finance lease	7	9
	91,280	75,888
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	22,893	13,767
Notes payable	3,109	–
Obligations under finance lease maturing within one year	7	34
	26,009	13,801
Total interest-bearing financial liabilities	117,289	89,689
Total equity attributable to equity holders of PLDT	151,833	97,069
	Php269,122	Php186,758
Other Selected Financial Data		
Total assets	Php395,646	Php277,815
Property, plant and equipment	197,731	163,184
Cash and cash equivalents	46,057	36,678
Short-term investments	558	669

Our consolidated cash and cash equivalents and short-term investments totaled Php46,615 million as at December 31, 2011. Principal sources of consolidated cash and cash equivalents in 2011 were cash flows from operating activities amounting to Php79,209 million, proceeds from availment of long-term debt and notes payable of Php19,600 million, net proceeds from disposal of investment in associates of Php14,981 million, interest received of Php1,359 million, dividends received of Php520 million and net cash acquired from purchase of investments of Php1,169 million. These funds were used principally for: (1) dividend payments of Php41,598 million; (2) capital outlays of Php31,207 million; (3) payments for purchase of available-for-sale financial assets of Php15,179 million; (4) debt principal and interest payments of Php15,056 million and Php5,325 million, respectively; (5) settlement of contingent consideration arising from business acquisitions of Php1,910 million; and (6) settlements of derivative financial instruments of Php632 million.

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

Operating Activities

Our consolidated net cash flows from operating activities increased by Php1,949 million, or 3%, to Php79,209 million in 2011, including Digitel Group’s cash flows from operating activities for the period from October 26, 2011 to December 31, 2011 of Php1,785 million, from Php77,260 million in 2010, primarily due to the 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 Php15,912 million, or 81%, to Php35,475 million in 2011 from Php19,563 million in 2010, primarily due to the LTIP settlement in March 2010, and higher collection of receivables mainly due to the collection of ePLDT’s receivable from SPi as a result of the transfer of SPi and SPi CRM, partially offset by higher level of settlement of accounts payable and other liabilities. Cash flows from operating activities of our wireless business decreased by Php678 million to Php54,971 million in 2011 from Php55,649 million in 2010, primarily due to lower operating income and higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of outstanding receivables. Cash flows used in operating activities of our BPO business in 2011 amounted to Php11,213 million as against cash flows provided by operating activities amounting to Php1,850 million in 2010, primarily due to a higher level of settlement of accounts payable and other liabilities mainly due to the settlement of SPi’s payable to ePLDT as a result of the transfer of SPi and SPi CRM, partially offset by higher level of collection of outstanding receivables.

Investing Activities

Consolidated net cash used in investing activities amounted to Php29,712 million in 2011, including the Digitel Group’s cash flows from investing activities for the period from October 26, 2011 to December 31, 2011 of Php1,029 million, an increase of Php6,429 million, or 28%, from Php23,283 million in 2010, primarily due to the combined effects of the following: (1) the higher payments for purchase of available-for-sale financial assets by Php15,177 million; (2) the lower net proceeds from the maturity of short-term investments by Php3,073 million; (3) the increase in capital expenditures by Php2,441 million; (4) the payment for contingent consideration arising from business acquisitions by Php1,910 million; (5) the lower proceeds from disposal of property, plant and equipment of Php336 million; (6) the higher interest received by Php194 million; (7) net cash utilized for the purchase of an investment of Php1,357 million; and (8) the net proceeds from disposal of investments of Php14,981 million.

Our consolidated capital expenditures in 2011 totaled Php31,207 million, an increase of Php2,441 million, or 8%, as compared with Php28,766 million in 2010, primarily due to an increase in PLDT’s capital spending and inclusion of the Digitel Group’s capital spending of Php839 million for the period from October 26, 2011 to December 31, 2011. PLDT’s capital spending of Php12,853 million in 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 Php16,743 million in 2011 was used primarily to modernize and expand its 2G/3G cellular network and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. SPi and its subsidiaries’ capital spending of Php400 million in 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. Digitel’s capital spending of Php839 million for the period from October 26, 2011 to December 31, 2011 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The balance of Php372 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 2011 amounted to Php520 million, a decrease of Php14 million, or 3%, as compared with Php534 million in 2010. The dividends received in 2011 and 2010 were from Meralco, Philweb and ePDS.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php40,204 million in 2011, including the Digitel Group's net cash used in financing activities for the period from October 26, 2011 to December 31, 2011 of Php793 million, a decrease of Php15,118 million, or 27%, as compared with Php55,322 million 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 Php12,354 million; (2) higher net availment of capital expenditures under long-term financing by Php2,805 million; (3) lower settlements of derivative financial instruments by Php463 million; (4) lower interest payments by Php255 million; (5) net increase in repayments of long-term debt and notes payable by Php411 million; and (6) higher cash dividend payments by Php518 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the year ended December 31, 2011 were Php17,464 million and Php2,136 million, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements maturing loan obligations, and the inclusion of the Digitel Group's availment of long-term debt and notes payable for the period from October 26, 2011 to December 31, 2011 amounted to Php1,160 million and Php432 million, respectively. Payments of principal and interest on our total debt amounted to Php15,056 million and Php5,325 million, respectively, in 2011, including the Digitel Group's payments of principal and interest of Php813 million and Php199 million, respectively.

Our consolidated long-term debt increased by Php24,520 million, or 27%, to Php114,166 million as at December 31, 2011 from Php89,646 million as at December 31, 2010, largely due to Digitel's consolidated debt, excluding convertible bonds held by PLDT, as at December 31, 2011 of Php21,345 million, drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the depreciation of the Philippine peso relative to the U.S. dollar to Php43.92 as at December 31, 2011 from Php43.81 as at December 31, 2010. The long-term debt levels of PLDT increased by 14% to Php55,707 million, while that of Smart decreased by 9% to Php37,066 million as at December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2011.

On June 6, 2011, Smart signed a US$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender. The loan is payable over five years in eight equal semi-annual installments with the first installment due on the eighteenth month from signing date. No availment has been made on this facility as at December 31, 2011.

On June 10, 2011, Smart signed a US$49 million five-year term loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as the original lender, arranger and facility agent. On July 5, 2011, Nordea Bank assigned 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 December 31, 2011.

On August 19, 2011, Smart signed a US$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with Finnish Export Credit, Plc., a lender on Record. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., the Hong Kong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at December 31, 2011.

On November 8, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A 5-year notes amounting to Php2,795 million, Series B 7-year notes amounting to Php230 million and Series C 10-year notes amounting to Php1,975 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 December 31, 2011.

As a result of the acquisition of Digitel, as discussed in Other Information, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGS, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGS. These loans and guarantees contained certain representations and covenants applicable to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGS by PLDT as guarantor under these loans. As at December 31, 2011, the outstanding balance of DMPI loans covered by PLDT guarantees is Php18,686 million. There are no outstanding Digitel loans covered by PLDT guarantees as at December 31, 2011.

Approximately Php72,980 million principal amount of our consolidated outstanding long-term debt as at December 31, 2011 is scheduled to mature over the period from 2012 to 2015. Of this amount, Php32,460 million is attributable to Smart, Php27,736 million to PLDT, Php12,734 million to Digitel and the remainder to ePLDT's subsidiaries.

For a complete discussion of our long-term debt, including debt instruments of Digitel Group, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying 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, while certain of DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

See *Note 20 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying 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 2011 amounted to Php41,598 million as compared with Php41,080 million paid to shareholders in 2010.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the years ended December 31, 2010 and 2011:

	Date		Amount		
Earnings	Approved	Record	Payable	Per share	Total Declared (in millions)
2010					
Common					
Regular Dividend	August 3, 2010	August 19, 2010	September 21, 2010	Php78.00	Php14,570
	March 1, 2011	March 16, 2011	April 19, 2011	78.00	14,567
Special Dividend	March 1, 2011	March 16, 2011	April 19, 2011	66.00	12,326
				222.00	41,463
Preferred					
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	409
Series IV Cumulative Non-convertible Redeemable Preferred Stock(1)	Various	Various	Various	–	49
					458
					Php41,921
2011					
Common					
Regular Dividend	August 2, 2011	August 31, 2011	September 27, 2011	78.00	Php14,567
	March 6, 2012	March 20, 2012	April 20, 2012	63.00	13,635
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,376
				189.00	38,578
Preferred					
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	408
Series IV Cumulative Non-convertible Redeemable Preferred Stock(1)	Various	Various	Various	–	49
					457
					Php39,035

(1) *Dividends are declared based on total amount paid up.*

See *Note 19 – Equity* to the accompanying consolidated financial statements for further details.

Off-Balance Sheet Arrangements

There are no off-balance sheet 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, or SIP, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise approximately Php2 million and Php3 million in 2011 and 2010, respectively.

As part of our goal to maximize returns to our shareholders, in 2008, 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. According to the share buyback program, as at December 31, 2011, we acquired a total of approximately 2.72 million shares of PLDT's common stock for a total consideration of Php6,505 million representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share. 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 2011 and 2010. See to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at December 31, 2011 and 2010, see *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php913 million and Php1,145 million as at December 31, 2011 and 2010, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

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

	Fair Values	
	December 31, 2011	September 30, 2011
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php81	Php81
Unlisted equity securities	7,100	69
Investments in debt securities	158	519
Advances and refundable deposits – net of current portion	1,061	848
Total noncurrent financial assets	8,400	1,517
Current Financial Assets		
Cash and cash equivalents	46,057	32,716
Short-term investments	558	559
Trade and other receivables – net	16,245	15,795
Derivative financial assets	366	233
Current portion of investment in debt securities	358	–
Current portion of advances and refundable deposits	18	18
Total current financial assets	63,602	49,321
Total Financial Assets	**Php72,002**	**Php50,838**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php95,059	Php75,180
Derivative financial liabilities	2,235	1,759
Customers' deposits	1,772	1,674
Deferred credits and other noncurrent liabilities	19,420	11,898
Total noncurrent financial liabilities	118,486	90,511
Current Financial Liabilities		
Accounts payable	27,982	20,919
Accrued expenses and other current liabilities	40,459	28,941
Interest-bearing financial liabilities	26,009	20,538
Derivative financial liabilities	924	857
Dividends payable	2,583	2,468
Total current financial liabilities	97,957	73,723
Total Financial Liabilities	**Php216,443**	**Php164,234**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2011 and for the nine months ended September 30, 2011:

	December 31, 2011	September 30, 2011
	(in millions)	
Profit and Loss		
Interest income	Php1,372	Php1,013
Gains on derivative financial instruments – net	197	626
Accretion on financial liabilities	(1,062)	(807)
Interest on loans and other related items	(5,960)	(4,369)
Other Comprehensive Income		
Net fair value gains on cash flow hedges	14	7
Net gains on available-for-sale financial assets – net of tax	3	3
	(Php5,436)	**(Php3,527)**

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 2011 and 2010 was 4.8% and 3.8%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

PLDT's Acquisition of Digitel

On March 29, 2011, the Board of Directors of PLDT and JGS approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is the 100% owner of 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 27.7 million new PLDT common shares) consideration payable for the Enterprise Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Enterprise Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

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

In addition, the sale of the Digitel shares owned by the seller-parties was subject to the consent of certain creditors of Digitel and DMPI. Digitel and DMPI have outstanding long-term debts that had been guaranteed by JGS. The loans and guarantees contained representations and covenants applicable to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI 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 for these loans.

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

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

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

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

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

As payment for the Enterprise Assets, PLDT issued approximately 27.7 million common shares with a total issue value of around Php69 billion to the seller-parties. Said shares are subject to a lock-up period of one (1) year during which JGS and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consents to the sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS had entered into with a Philippine associate of First Pacific Company Limited and NTT DOCOMO, Inc., or NTT DOCOMO, respectively. Following the sale of those shares in November 2011, the JG Summit Group, First Pacific Group and its Philippine affiliates, and NTT Group (NTT DOCOMO together with NTT Communications Capital (UK) Ltd.) owned approximately 8%, 26% and 21% of PLDT's common shares, respectively.

On December 8, 2011, PLDT exercised the conversion option for 4 billion Digitel common shares with stated value of Php4 billion comprising 25% of the total amount of increase in Digitel's authorized capital stock, which was paid through the assignment by PLDT to Digitel of: (i) 2013 Convertible Bonds, issued by Digitel with redemption value of US$25 million or Php1,087 million as of the conversion date of December 8, 2011; and (ii) 15.6% of its 2014 Exchangeable Bonds issued by Digitel Capital Philippines, Ltd., or DCPL, with redemption value of US$66 million, or Php2,913 million, as of the exchange date of December 8, 2011. As a result of this partial conversion and exchange by PLDT of bonds into 4 billion Digitel common shares, PLDT's equity interest increased from 51.6% to 70.2% of the outstanding common stock of Digitel as at December 31, 2011.

Under the SRC, PLDT is required to conduct a mandatory tender offer for the approximately 48.4% of the issued common stock of Digitel held by the remaining noncontrolling shareholders of Digitel in connection with PLDT's acquisition of 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of Digitel shareholders, except for tendering shareholders residing outside the Philippines who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012. The contingently issuable shares under the mandatory tender offer were considered in determining diluted earnings per share, which was calculated assuming all remaining Digitel shareholders would accept PLDT shares in response to the mandatory tender offer.

On January 25, 2012, Digitel filed for voluntary delisting of its shares with the PSE, since its public ownership level has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and accordingly ordered the delisting of the shares of Digitel from the Official Registry of the PSE effective March 26, 2012. Subject to the payment of the required voluntary delisting fee, Digitel shares shall no longer be tradable on the PSE effective March 26, 2012.

From February 1 to 3, 2012, PLDT purchased from the open market 37.9 million common shares of Digitel.

On February 7, 2012, PLDT's Board of Directors authorized the exchange of 78.4% of Exchangeable Bonds due 2014 issued by DCPL with redemption value of US$340 million, or Php14,641 million, in exchange for 14,641 million Digitel common shares. As a result of the open market purchase of 37.9 million common shares of Digitel and the additional partial exchange by PLDT of bonds into 14,641 million Digitel common shares, PLDT further increased its equity interest to 99.4% of the outstanding common stock of Digitel as at March 6, 2012.

PLDT's Listing of Additional Common Shares

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel, see *Note 13 – Business Combinations – PLDT's Acquisition of Digitel* to the accompanying consolidated financial statements.

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

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, or the Amendments. The shares of voting preferred stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines. The holders of voting preferred stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of voting preferred stock.

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

The Board of Directors called for another Special Meeting of Stockholders which will be held on March 22, 2012 for the aforestated purposes.

After the approval of the Amendments by the stockholders and the Philippine SEC, 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.

Redemption of Preferred Shares

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

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

PLDT has set aside Php5.8 billion, the amount required to fund the redemption price for the SIP Preferred Shares, in a trust account in the name of Rizal Commercial Banking Corporation, as trustee. Pursuant to the terms of the trust account, the trustee will continue to hold in trust, for the benefit of those Holders of SIP Preferred Shares who have failed to claim their redemption price for a period of 10 years from the Redemption Date or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on such redemption trust fund shall accrue for the benefit of, and be paid from time to time to, PLDT.

As at January 19, 2012, notwithstanding that any stock certificate representing the SIP Preferred Shares has not been surrendered for cancellation, the SIP Preferred Shares shall no longer be deemed outstanding and the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP Preferred Shares shall forthwith cease and terminate, except only the right to receive the Redemption Price for such SIP Preferred Shares, but without interest thereon.

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock had been redeemed and retired effective January 19, 2012. A total amount of Php105 million was withdrawn from the Trust Account, representing total payments in redemption as at March 6, 2012.

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

See *Note 19 – Equity* to the accompanying consolidated financial statements for further details.

Beacon's Acquisition of Additional Meralco Shares

In January 2012, Beacon acquired 30 million Meralco common shares from FPUC representing approximately 3% beneficial ownership in Meralco at nominal value of Php295 per share, increasing Beacon's beneficial ownership in Meralco to 48%. FPUC will retain certain property dividends that may be declared on such shares.

PCEV's Additional Investment in Beacon

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

On December 2, 2011, PCEV's Board of Directors approved the subscription of 135 million Beacon common shares for a total cash consideration of Php2,700 million. PCEV and Beacon entered into a subscription agreement on January 20, 2012 for said common shares. MPIC subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

PCEV's Voluntary Delisting

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the Philippine Stock Exchange in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to purchase the shares owned by the remaining minority shareholders representing 0.49% of the outstanding common stock of PCEV, which Smart, as the owner of 99.51% of the outstanding common shares of PCEV, is expected to conduct.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at December 31, 2011:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php11,302	Php2,143	Php1,086	Php357	Php7,716
Corporate subscribers	9,200	1,595	1,487	657	5,461
Foreign administrations	4,961	1,588	1,346	687	1,340
Domestic carriers	1,323	227	108	112	876
Dealers, agents and others	4,231	3,042	231	224	734
Total	Php31,017	Php8,595	Php4,258	Php2,037	Php16,127
Less: Allowance for doubtful accounts	14,772				
Total Receivables - net	**Php**16,245				

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: Anabelle Lim-Chua

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

Signature and Title: June Cheryl Cabal-Revilla

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

Date: March 6, 2012