SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

March 31, 2011

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

May 10, 2011

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the three (3) months ended March 31, 2011.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

General Office P.O. Box 2148 Makati City, Philippines

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG. MAKATI AVE. MAKATI CITY

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

MS. JUNE CHERYL A. CABAL

Contact Person

816-8534

Company Telephone Number

1	2	3	1

Month Day
Fiscal Year

SEC FORM 17-Q

FORM TYPE

0	6	Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

Total Amount of Borrowings

2,182,144 As of March 31, 2011	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2011

2. SEC Identification Number PW-55 3. BIR Tax Identification No. 000-488-793

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

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

6. Industry Classification Code: (SEC Use Only)

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

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

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

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	186,756,449 shares as at March 31, 2011

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

    Yes [X] No [ ]

12. Check whether the registrant

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

    Yes [X] No [ ]

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

    Yes [X] No [ ]

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at March 31, 2011 (unaudited) and December 31, 2010 (audited) and for the three months ended March 31, 2011 and 2010 (unaudited) and related notes (pages F-1 to F-107) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.41 to US$1.00, the volume weighted average exchange rate as at March 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 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

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

Financial Highlights and Key Performance Indicators

(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php292,299	Php277,815	Php14,484	5
Property, plant and equipment – net	159,662	163,184	(3,522)	(2)
Cash and cash equivalents and short-term investments	56,613	37,347	19,266	52
Total equity attributable to equity holders of PLDT	80,837	97,069	(16,232)	(17)
Long-term debt, including current portion	93,841	89,646	4,195	5
Net debt[(1)] to equity ratio	0.46x	0.54x	–	–

	Three Months Ended March 31, 2011	2010	Increase (Decrease) Amount	%
	(Unaudited)			
Consolidated Income Statements				
Revenues	Php35,144	Php36,514	(Php1,370)	(4)
Expenses	20,868	21,796	(928)	(4)
Other income	82	323	(241)	(75)
Income before income tax	14,358	15,041	(683)	(5)
Net income for the period	10,726	11,374	(648)	(6)
Net income attributable to equity holders of PLDT:				
Reported net income	10,734	11,421	(687)	(6)
Core income	10,556	10,485	71	1
EBITDA	20,954	21,183	(229)	(1)
EBITDA margin[(2)]	61%	59%	–	–
Reported earnings per common share:				
Basic	56.87	60.53	(3.66)	(6)
Diluted	56.78	60.51	(3.73)	(6)
Core earnings per common share[(3)]:				
Basic	55.91	55.52	0.39	1
Diluted	55.84	55.52	0.32	1
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	20,830	19,566	1,264	6
Net cash used in investing activities	2,699	1,657	1,042	63
Capital expenditures	*3,112*	*5,206*	*(2,094)*	*(40)*
Net cash provided by (used in) financing activities	1,224	(5,149)	6,373	(124)
Operational Data				
Number of cellular subscribers	46,656,685	43,207,323	3,449,362	8
Number of fixed line subscribers	1,842,004	1,859,998	(17,994)	(1)
Number of broadband subscribers:	2,100,743	1,833,811	266,932	15
Fixed Line	*671,588*	*589,795*	*81,793*	*14*
Wireless	*1,429,155*	*1,244,016*	*185,139*	*15*
Number of employees:	29,463	28,868	595	2
Fixed Line	*7,407*	*8,073*	*(666)*	*(8)*
Wireless	*5,053*	*5,553*	*(500)*	*(9)*
Information and Communications Technology	*17,003*	*15,242*	*1,761*	*12*

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
March 31, 2011	43.41	43.78
December 31, 2010	43.81	45.12
March 31, 2010	45.29	46.00
December 31, 2009	46.43	47.64

(1) *Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion).*
(2) *EBITDA margin for the period is derived as a percentage of service revenues.*
(3) *Core earnings per common share is derived by dividing core income with the average outstanding common shares for the period.*

Overview

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

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

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

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc.; knowledge processing solutions provided by SPi Technologies, Inc. and Subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM; internet access and online gaming services provided by Infocom Technologies, Inc., Digital Paradise, Inc., or Digital Paradise (on April 1, 2011, ePLDT sold its 75% stake in Digital Paradise), netGames, Inc. and Level Up!, Inc.; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* to the accompanying consolidated financial statements.

Performance Indicators

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

EBITDA

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

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, 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 three months ended March 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 three months ended March 31, 2011 and 2010:

	2011	2010
	(in millions)	
Consolidated EBITDA	Php20,954	Php21,183
Amortization of intangible assets	(75)	(91)
Depreciation and amortization	(6,603)	(6,361)
Asset impairment on property, plant and equipment	–	(13)
	14,276	14,718
Gains on derivative financial instruments – net	422	512
Interest income	321	366
Foreign exchange gains – net	320	708
Equity share in net earnings of associates and joint ventures	192	369
Financing costs – net	(1,530)	(1,874)
Other income	357	242
Consolidated income before income tax	14,358	15,041
Provision for income tax	(3,632)	(3,667)
Consolidated net income for the period	Php10,726	Php11,374

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

	2011	2010
	(in millions)	
Consolidated core income for the period	Php10,556	Php10,485
Gains on derivative financial instruments – net, excluding hedge cost	511	632
Foreign exchange gains – net	311	708
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	(312)	6
Others	(85)	(8)
Net tax effect of aforementioned adjustments	(247)	(402)
Net income attributable to equity holders of PLDT	10,734	11,421
Net loss attributable to non-controlling interests	(8)	(47)
Consolidated net income for the period	Php10,726	Php11,374

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income, income before income tax, provision for (benefit from) income tax, net income, EBITDA, EBITDA margin and core income for the three months ended March 31, 2011 and 2010. The majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in millions)		
For the three months ended March 31, 2011					
Revenues	Php23,038	Php11,775	Php2,771	(Php2,440)	Php35,144
Expenses	11,890	8,915	2,547	(2,484)	20,868
Other income	11	20	95	(44)	82
Income before income tax	11,159	2,880	319	–	14,358
Provision for income tax	2,778	818	36	–	3,632
Net income for the period/Segment profit for the period	8,381	2,062	283	–	10,726
EBITDA for the period	14,549	5,907	454	44	20,954
EBITDA margin for the period[(1)]	64%	51%	17%	–	61%
Core income for the period	8,661	1,615	280	–	10,556
For the three months ended March 31, 2010					
Revenues	24,068	12,953	2,670	(3,177)	36,514
Expenses	12,927	9,549	2,556	(3,236)	21,796
Other income	257	113	12	(59)	323
Income before income tax	11,398	3,517	126	–	15,041
Provision for (benefit from) income tax	2,733	943	(9)	–	3,667
Net income for the period/Segment profit for the period	8,665	2,574	135	–	11,374
EBITDA for the period	14,440	6,314	370	59	21,183
EBITDA margin for the period[(1)]	61%	49%	14%	–	59%
Core income for the period	8,474	1,853	158	–	10,485

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(in millions)					
Revenues	(Php1,030)	(4)	(Php1,178)	(9)	Php101	4	Php737	23	(Php1,370)	(4)
Expenses	(1,037)	(8)	(634)	(7)	(9)	–	752	23	(928)	(4)
Other income	(246)	(96)	(93)	(82)	83	692	15	25	(241)	(75)
Income before income tax	(239)	(2)	(637)	(18)	193	153	–	–	(683)	(5)
Provision for (benefit from) income tax	45	2	(125)	(13)	45	(500)	–	–	(35)	(1)
Net income for the period/Segment profit for the period	(284)	(3)	(512)	(20)	148	110	–	–	(648)	(6)
EBITDA for the period	109	1	(407)	(6)	84	23	(15)	(25)	(229)	(1)
Core income for the period	187	2	(238)	(13)	122	77	–	–	71	1

[(1)] *EBITDA margin for the period is derived as a percentage of service revenues.*

On a Consolidated Basis

We registered consolidated revenues of Php35,144 million in the first quarter of 2011, a decrease of Php1,370 million, or 4%, as compared with Php36,514 million in the same period in 2010, primarily due to a decline in our service revenues by Php1,435 million as a result of decreases in cellular and satellite revenues from our wireless business, as well as lower revenues from across our fixed line business' services.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php23,038	66	Php24,068	66	(Php1,030)	(4)
Fixed line	11,775	33	12,953	36	(1,178)	(9)
Information and communications technology	2,771	8	2,670	7	101	4
Inter-segment transactions	(2,440)	(7)	(3,177)	(9)	737	23
Consolidated	Php35,144	100	Php36,514	100	(Php1,370)	(4)

Consolidated expenses decreased by Php928 million, or 4%, to Php20,868 million in the first quarter of 2011 from Php21,796 million in 2010, largely as a result of decreases in selling and promotions, asset impairment, compensation and employee benefits, rent, communication, training and travel and repairs and maintenance expenses, partly offset by higher depreciation and amortization, cost of sales, and insurance and security services.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php11,890	57	Php12,927	59	(Php1,037)	(8)
Fixed line	8,915	43	9,549	44	(634)	(7)
Information and communications technology	2,547	12	2,556	12	(9)	–
Inter-segment transactions	(2,484)	(12)	(3,236)	(15)	752	(23)
Consolidated	Php20,868	100	Php21,796	100	(Php928)	(4)

Consolidated other income in the first quarter of 2011 amounted to Php82 million, a decrease of Php241 million, or 75%, from Php323 million in the same period in 2010 primarily due to the combined effects of the following: (i) lower net foreign exchange gains by Php388 million in the first quarter of 2011 as compared with the same period in 2010 due to the revaluation of foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) net decrease in equity share in net earnings of associates and joint ventures of Php177 million; (iii) lower net gains on derivative financial instruments by Php90 million due to lower mark-to-market valuation as a result of the increase in dollar interest rates in the first quarter of 2011, partially offset by lower hedge costs mainly due to the offsetting effect of overlay transactions in the first quarter of 2011; (iv) lower interest income by Php45 million due to lower average level of money market placements and special deposits, as well as lower average interest rate; (v) a decrease in net financing costs by Php344 million mainly due to lower interest on loans and other related items – net, on account of PLDT's and Smart's lower average loan balances, partially offset by higher accretion on amortization of debt issuance cost and debt discount, and ICT business' higher accretion on contingent consideration for business acquisitions; and (vi) an increase in other income by Php115 million, which was mainly due to pension benefit income recognized by PLDT and higher rental income by our wireless and ICT businesses, partially offset by lower gain on disposal of fixed assets.

The following table shows the breakdown of our consolidated other income for the three months ended March 31, 2011 and 2010 by business segment:

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php11	14	Php257	79	(Php246)	(96)
Fixed line	20	24	113	35	(93)	(82)
Information and communications technology	95	116	12	4	83	692
Inter-segment transactions	(44)	(54)	(59)	(18)	15	(25)
Consolidated	Php82	100	Php323	100	(Php241)	(75)

Consolidated net income decreased by Php648 million, or 6%, to Php10,726 million in the first quarter of 2011 from Php11,374 million in the same period in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php1,370 million; (ii) a decrease in consolidated other income by Php241 million; (iii) a decrease in consolidated expenses by Php928 million; and (iv) a decrease in the consolidated provision for income tax by Php35 million, which was mainly due to lower taxable income from our fixed line and wireless businesses.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php8,381	78	Php8,665	76	(Php284)	(3)
Fixed line	2,062	19	2,574	23	(512)	(20)
Information and communications technology	283	3	135	1	148	110
Consolidated	Php10,726	100	Php11,374	100	(Php648)	(6)

EBITDA

Our consolidated EBITDA was Php20,954 million in the first quarter of 2011, a decrease of Php229 million, or 1%, as compared with Php21,183 million in the same period in 2010 primarily due to a decline in service revenues from our fixed line and wireless businesses, partly offset by lower provision for uncollectible receivables and lower cash operating expenses, mainly selling and promotions, compensation and employee benefits, rent, communication, training and travel, and repairs and maintenance expenses.

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

	2011	%	2010	%	Change Amount	Change %
			(in millions)			
Wireless	Php14,549	70	Php14,440	68	Php109	1
Fixed line	5,907	28	6,314	30	(407)	(6)
Information and communications technology	454	2	370	2	84	23
Inter-segment transactions	44	–	59	–	(15)	(25)
Consolidated	Php20,954	100	Php21,183	100	(Php229)	(1)

Core Income

Our consolidated core income was Php10,556 million in the first quarter of 2011, an increase of Php71 million, or 1%, as compared with Php10,485 million in the same period in 2010 primarily due to decreases in consolidated expenses and lower consolidated provision for income tax, partially offset by a decrease in consolidated revenues. Our consolidated core basic earnings per common share also increased to Php55.91 in the first quarter of 2011 from Php55.52 in the same period in 2010 and our consolidated core diluted earnings per common share increased to Php55.84 in the first quarter of 2011 from Php55.52 in the same period in 2010. Our weighted average number of outstanding common shares was approximately 186.8 million in each of the three months ended March 31, 2011 and 2010.

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

					Change	
	2011	%	2010	%	Amount	%
			(in millions)			
Wireless	Php8,661	82	Php8,474	81	Php187	2
Fixed line	1,615	15	1,853	18	(238)	(13)
Information and communications technology	280	3	158	1	122	77
Consolidated	Php10,556	100	Php10,485	100	Php71	1

On a Business Segment Basis

Wireless

Revenues

Revenues generated from our wireless business amounted to Php23,038 million in the first quarter of 2011, a decrease of Php1,030 million, or 4%, from Php24,068 million in the same period in 2010.

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

					Decrease	
	2011	%	2010	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php20,997	91	Php21,790	90	(Php793)	(4)
Wireless broadband, satellite and others						
Wireless broadband	1,582	7	1,589	7	(7)	–
Satellite and others	189	1	315	1	(126)	(40)
	22,768	99	23,694	98	(926)	(4)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	270	1	374	2	(104)	(28)
Total Wireless Revenues	Php23,038	100	Php24,068	100	(Php1,030)	(4)

Service Revenues

Our wireless service revenues decreased by Php926 million, or 4%, to Php22,768 million in the first quarter of 2011 as compared with Php23,694 million in the same period in 2010, mainly as a result of lower revenues from our cellular and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as domestic text messaging services on the back of pervasive multiple SIM card ownership and increasing patronage of social networking sites. This was, however, partially offset by an increase in international short messaging service, or SMS, and value-added services, or VAS, revenues, mainly from *Pasaload* and internet-based VAS. 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 Php43.78 for the three months ended March 31, 2011 from Php46.00 for the three months ended March 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 the first quarter of 2011 were lower as compared with the same period in 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues increased to 99% in the first quarter of 2011 from 98% in the same period in 2010.

Cellular Service

Our cellular service revenues in the first quarter of 2011 amounted to Php20,997 million, a decrease of Php793 million, or 4%, from Php21,790 million in the same period in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in each of the first quarter of 2011 and 2010.

The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the three months ended March 31, 2011 and 2010:

			Decrease	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Cellular service revenues	Php20,997	Php21,790	(Php793)	(4)
By service type	*20,330*	*21,109*	*(779)*	*(4)*
Prepaid	18,782	19,420	(638)	(3)
Postpaid	1,548	1,689	(141)	(8)
By component	*20,330*	*21,109*	*(779)*	*(4)*
Voice	9,999	10,547	(548)	(5)
Data	10,331	10,562	(231)	(2)
Others[1]	*667*	*681*	*(14)*	*(2)*

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

	2011	2010	Increase (Decrease) Amount	%
Cellular subscriber base	46,656,685	43,207,323	3,449,362	8
Prepaid	46,226,125	42,761,910	3,464,215	8
Smart Buddy	*25,735,090*	*25,033,946*	*701,144*	*3*
Talk 'N Text	*19,400,538*	*17,445,697*	*1,954,841*	*11*
Red Mobile	*1,090,497*	*282,267*	*808,230*	*286*
Postpaid	430,560	445,413	(14,853)	(3)
Smart	*430,410*	*445,413*	*(15,003)*	*(3)*
Red Mobile	*150*	*–*	*150*	*100*
Systemwide traffic volumes (in millions)				
Calls (in minutes)	5,880	6,523	(643)	(10)
Domestic	5,123	5,753	(630)	(11)
Inbound	*352*	*363*	*(11)*	*(3)*
Outbound	*4,771*	*5,390*	*(619)*	*(11)*
International	757	770	(13)	(2)
Inbound	*707*	*717*	*(10)*	*(1)*
Outbound	*50*	*53*	*(3)*	*(6)*
SMS/Data count (in hits)	80,550	84,235	(3,685)	(4)
Text messages	80,133	83,865	(3,732)	(4)
Domestic	79,990	83,744	(3,754)	(4)
Inbound	*2,114*	*1,976*	*138*	*7*
Outbound	*77,876*	*81,768*	*(3,892)*	*(5)*
Bucket-Priced	73,402	77,190	(3,788)	(5)
Standard	4,474	4,578	(104)	(2)
International	143	121	22	18
Inbound	*72*	*44*	*28*	*64*
Outbound	*71*	*77*	*(6)*	*(8)*
Value-Added Services	409	364	45	12
Financial Services	8	6	2	33

Revenues attributable to our prepaid cellular services amounted to Php18,782 million in the first quarter of 2011, a decrease of Php638 million, or 3%, as compared with Php19,420 million in the same period in 2010. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of the first quarter of 2011 and 2010. Revenues attributable to Smart's postpaid cellular service amounted to Php1,548 million in the first quarter of 2011, a decrease of Php141 million, or 8%, as compared with Php1,689 million earned in the same period in 2010, and accounted for 8% of cellular voice and data revenues in each of the first quarter of 2011 and 2010.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php548 million, or 5%, to Php9,999 million in the first quarter of 2011 from Php10,547 million in the same period in 2010 primarily due to a decrease in international and domestic call revenues. Cellular voice services accounted for 48% of our cellular service revenues in each of the first quarter of 2011 and 2010.

The following table shows the breakdown of our cellular voice revenues for the three months ended March 31, 2011 and 2010:

			Increase (Decrease)	
	2011	2010	Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php1,293	Php1,286	Php7	1
Outbound	4,831	5,021	(190)	(4)
	6,124	6,307	(183)	(3)
International				
Inbound	3,477	3,812	(335)	(9)
Outbound	398	428	(30)	(7)
	3,875	4,240	(365)	(9)
Total	Php9,999	Php10,547	(Php548)	(5)

Domestic voice service revenues decreased by Php183 million, or 3%, to Php6,124 million in the first quarter of 2011 from Php6,307 million in the same period in 2010 primarily due to a decrease in domestic outbound call revenues by Php190 million, or 4%, to Php4,831 million in the first quarter of 2011 from Php5,021 million in the same period in 2010 mainly due to lower yield on standard calls and a decrease in domestic call volumes. This was partially offset by an increase in the revenue contribution of our domestic inbound voice service by Php7 million, or 1%, to Php1,293 million in the first quarter of 2011 from Php1,286 million in the same period in 2010 as a result of an increase in revenues from other domestic mobile carriers. Domestic outbound call volumes decreased by 619 million minutes, or 11%, to 4,771 million minutes in the first quarter of 2011 from 5,390 million minutes in the same period in 2010. The increase in domestic inbound call volumes from other domestic carriers was offset by the decrease in call volumes from fixed line operators, which resulted in the overall decrease in our domestic inbound call volumes by 11 million minutes, or 3%, to 352 million minutes in the first quarter of 2011 from 363 million minutes in the same period in 2010.

International voice service revenues decreased by Php365 million, or 9%, to Php3,875 million in the first quarter of 2011 from Php4,240 million in the same period in 2010 primarily due to a decline in international inbound voice service revenues by Php335 million, or 9%, to Php3,477 million in the first quarter of 2011 from Php3,812 million in the same period in 2010 as well as a decline in international outbound voice service revenues by Php30 million, or 7%, to Php398 million in the first quarter of 2011 from Php428 million in the same period in 2010. The decline in international voice service revenues was due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.78 for the three months ended March 31, 2011 from Php46.00 for the three months ended March 31, 2010. Moreover, international inbound and outbound calls totaled 757 million minutes in the first quarter of 2011, a decrease of 13 million minutes, or 2%, as compared with 770 million minutes in the same period in 2010, mainly due to aggressive pricing offers from competitors and cheaper alternative means of communication.

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

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

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

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

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

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php231 million, or 2%, to Php10,331 million in the first quarter of 2011 from Php10,562 million in the same period in 2010. Cellular data services accounted for 49% and 48% of our cellular service revenues in the first quarter of 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data revenues for the three months ended March 31, 2011 and 2010:

	2011	2010	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php9,073	Php9,613	(Php540)	(6)
Bucket-Priced	*5,594*	*6,049*	*(455)*	*(8)*
Standard	*3,479*	*3,564*	*(85)*	*(2)*
International	486	326	160	49
	9,559	9,939	(380)	(4)
Value-added services				
Internet-based[(1)]	236	169	67	40
MMS-based[(2)]	195	180	15	8
SMS-based[(3)]	163	166	(3)	(2)
Pasaload[(4)]	168	99	69	70
	762	614	148	24
Financial services				
Smart Money	9	8	1	13
Mobile Banking	1	1	–	–
	10	9	1	11
Total	Php10,331	Php10,562	(Php231)	(2)

(1) Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs. Uzzap is an IP-based messaging service that allows instant messaging, email, SMS, group messages, chatting, etc.

(2) Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content-provider costs.

(3) Includes revenues from info-on-demand and voice text services, net of allocated discounts and content-provider costs.

*(4) Includes revenues from Pasaload and Dial*SOS, net of allocated discounts. Pasaload is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.*

Text messaging-related services contributed revenues of Php9,559 million in the first quarter of 2011, a decrease of Php380 million, or 4%, as compared with Php9,939 million in the same period in 2010, and accounted for 93% and 94% of our total cellular data revenues in the first quarter of 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS traffic although SMS yields have stabilized. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced plans totaled Php5,594 million in the first quarter of 2011, a decrease of Php455 million, or 8%, as compared with Php6,049 million in the same period in 2010. Standard text messaging revenues decreased by Php85 million, or 2%, to Php3,479 million in the first quarter of 2011 from Php3,564 million in the same period in 2010. On the other hand, the increase in international text messaging revenues was mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

Bucket-priced text messages decreased by 3,788 million, or 5%, to 73,402 million in the first quarter of 2011 from 77,190 million in the same period in 2010. Standard text messages also declined by 104 million, or 2%, to 4,474 million in the first quarter of 2011 from 4,578 million in the same period in 2010. Lower usage of these services was due to the increasing popularity of social networking sites.

VAS contributed revenues of Php762 million in the first quarter of 2011, an increase of Php148 million, or 24%, as compared with Php614 million in the same period in 2010, primarily due to an increase in revenues from *Pasa Load* by Php69 million, or 70%, to Php168 million in the first quarter of

2011 from Php99 million in the same period in 2010, and internet-based VAS, which increased by Php67 million, or 40%, to Php236 million in the first quarter of 2011 from Php169 million in the same period in 2010.

Subscriber Base, ARPU and Churn Rates

As at March 31, 2011, Smart, including *Talk 'N Text* and *Red Mobile* subscribers totaled 46,656,685, an increase of 3,449,362, or 8%, over their combined cellular subscriber base of 43,207,323 as at March 31, 2010. Our cellular prepaid subscriber base grew by 3,464,215, or 8%, to 46,226,125 as at March 31, 2011 from 42,761,910 as at March 31, 2010, while our cellular postpaid subscriber base decreased by 14,853, or 3%, to 430,560 as at March 31, 2011 from 445,413 as at March 31, 2010. Prepaid subscribers accounted for 99% each of our total subscriber base as at March 31, 2011 and 2010.

Our net subscriber activations for the three months ended March 31, 2011 and 2010 were as follows:

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Prepaid	1,011,692	1,868,812	(857,120)	(46)
Smart Buddy	*441,647*	*1,271,132*	*(829,485)*	*(65)*
Talk 'N Text	*433,157*	*394,984*	*38,173*	*10*
Red Mobile	*136,888*	*202,696*	*(65,808)*	*(32)*
Postpaid	8,985	9,870	(885)	(9)
Smart	*8,835*	*9,870*	*(1,035)*	*(10)*
Red Mobile	*150*	*–*	*150*	*100*
Total	1,020,677	1,878,682	(858,005)	(46)

Prepaid and postpaid subscribers reflected net activations of 1,011,692 and 8,985, respectively, in the first quarter of 2011 as compared with net activations of 1,868,812 and 9,870, respectively, in the same period in 2010.

For *Smart Buddy* subscribers, the average monthly churn rate in the first quarter of 2011 and 2010 were 4.7% and 4.2%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers was 5.2% in each of the first quarter of 2011 and 2010. The average monthly churn rate for *Red Mobile* prepaid subscribers were 19.5% and 5.1% in the first quarter of 2011 and 2010, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 1.8% and 1.1% for the first quarter of 2011 and 2010, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our average monthly cellular ARPUs for the three months ended March 31, 2011 and 2010:

	Gross[(1)]		Increase (Decrease)		Net[(2)]		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
Smart Buddy	Php205	Php232	(Php27)	(12)	Php163	Php184	(Php21)	(11)
Talk 'N Text	129	140	(11)	(8)	106	115	(9)	(8)
Red Mobile	32	11	21	191	27	8	19	238
Prepaid – Blended[(3)]	169	193	(24)	(12)	136	155	(19)	(12)
Postpaid – Smart	1,610	1,686	(76)	(5)	1,205	1,286	(81)	(6)
Prepaid and Postpaid Blended[(4)]	182	209	(27)	(13)	146	167	(21)	(13)

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

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first quarter of 2011 was Php169, a decrease of 12%, as compared with Php193 in the same period in 2010. The decrease was primarily due to a decline in the average domestic outbound call and text messaging revenue per subscriber, as well as a drop in the average international inbound voice revenue per subscriber in the first quarter of 2011 as compared with the same period in 2010. On a net basis, prepaid blended average monthly ARPU in the first quarter of 2011 was Php136, a decrease of 12%, as compared with Php155 in the same period in 2010.

Gross average monthly ARPU for postpaid subscribers decreased by 5% to Php1,610 and net average monthly ARPU decreased by 6% to Php1,205 in the first quarter of 2011 as compared with Php1,686 and Php1,286 in the same period in 2010, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php182 in the first quarter of 2011, a decrease of 13%, as compared with Php209 in the same period in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 13% to Php146 in the first quarter of 2011 from Php167 in the same period in 2010.

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

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

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

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services decreased by Php7 million to Php1,582 million in the first quarter of 2011 from Php1,589 million in the same period in 2010, primarily due to a lower postpaid subscriber base.

SBI offers a number of wireless broadband services and had a total of 1,407,219 subscribers as at March 31, 2011, an increase of 181,024 subscribers, or 15%, as compared with 1,226,195 subscribers as at March 31, 2010. Our postpaid wireless broadband subscriber base decreased by 23,430 subscribers, or 5%, to 434,030 subscribers as at March 31, 2011 from 457,460 subscribers as at March 31, 2010, while our prepaid wireless broadband subscriber base increased by 204,454 subscribers, or 27%, to 973,189 subscribers as at March 31, 2011 from 768,735 subscribers as at March 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.

SmartBro WiMAX service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* was initially offered at Plan 999 for unlimited broadband usage with a burst speed of up to 1 Mbps. Additional unlimited broadband packages are also available under Plan 799 and Plan 1,995 with speeds of up to 512 kbps and up to 2 Mbps, respectively.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php126 million, or 40%, to Php189 million in the first quarter of 2011 from Php315 million in the same period in 2010, primarily due to the sale of Mabuhay Satellite's transponders and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.78 for the three months ended March 31, 2011 from Php46.00 for the three months ended March 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 decreased by Php104 million, or 28%, to Php270 million in the first quarter of 2011 as compared with Php374 million in the same period in 2010 primarily due to the lower quantity of broadband data modems sold.

Expenses

Expenses associated with our wireless business in the first quarter of 2011 amounted to Php11,890 million, a decrease of Php1,037 million, or 8%, from Php12,927 million in the same period in 2010. A significant portion of this decrease was attributable to lower expenses related to rent, selling and promotions, cost of sales, compensation and employee benefits, and professional and other contracted services, partially offset by higher expenses related to depreciation and amortization, repairs and maintenance, and insurance and security services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 54% in the first quarter of 2011 and 2010, respectively.

Cellular business expenses accounted for 82% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 18% of our wireless business expenses in the first quarter of 2011 as compared with 85% and 15%, respectively, in the same period in 2010.

The following table summarizes the breakdown of our total wireless-related expenses for the three months ended March 31, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php3,374	28	Php3,263	25	Php111	3
Rent	1,985	17	2,728	21	(743)	(27)
Compensation and employee benefits[1]	1,499	13	1,585	12	(86)	(5)
Repairs and maintenance	1,283	11	1,210	10	73	6
Selling and promotions	895	8	1,053	8	(158)	(15)
Cost of sales	862	7	1,013	8	(151)	(15)
Professional and other contracted services	708	6	771	6	(63)	(8)
Taxes and licenses	411	3	462	4	(51)	(11)
Communication, training and travel	221	2	227	2	(6)	(3)
Insurance and security services	204	2	170	1	34	20
Asset impairment	167	1	172	1	(5)	(3)
Amortization of intangible assets	27	–	23	–	4	17
Other expenses	254	2	250	2	4	2
Total	Php11,890	100	Php12,927	100	(Php1,037)	(8)

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

Depreciation and amortization charges increased by Php111 million, or 3%, to Php3,374 million in the first quarter of 2011 principally due to an increase in depreciation on the growing asset base of Smart's 2G and 3G networks, service delivery platforms, business support systems and WiMAX network.

Rent expenses decreased by Php743 million, or 27%, to Php1,985 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in domestic leased circuits, partially offset by the increase in cell site rental charges. In the first quarter of 2011, we had 6,037 cell sites, 10,736 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations, as compared with 5,595 cell sites, 9,727 cellular/mobile broadband base stations and 2,012 fixed wireless broadband-enabled base stations in the same period in 2010.

Compensation and employee benefits expenses decreased by Php86 million, or 5%, to Php1,499 million primarily due to lower salaries and employee benefits as a result of lower headcount, partially offset by the higher provision for LTIP, pension benefits and MRP costs. Employee headcount decreased to 5,053 in the first quarter of 2011 as compared with 5,553 in the same period in 2010.

Repairs and maintenance expenses increased by Php73 million, or 6%, to Php1,283 million mainly due to higher electricity and fuel costs for power generation and an increase in computer hardware and building maintenance expenses, partly offset by lower maintenance charges for cellular network facilities and computer software.

Selling and promotion expenses decreased by Php158 million, or 15%, to Php895 million primarily due to lower spending on advertising and promotional campaigns, partly offset by increased commissions and public relations expenses.

Cost of sales decreased by Php151 million, or 15%, to Php862 million primarily due to lower quantity of broadband modems sold, partly offset by higher broadband and cellular retention costs.

Professional and other contracted service fees decreased by Php63 million, or 8%, to Php708 million primarily due to lower management fees, contracted service fees, customer relationship management service fees and technical service fees, partly offset by the increase in consultancy fees, corporate membership fees and outsourced service fees.

Taxes and licenses decreased by Php51 million, or 11%, to Php411 million primarily due to lower non-creditable input taxes and business-related taxes and license fees.

Communication, training and travel expenses decreased by Php6 million, or 3%, to Php221 million primarily due to lower communication, hauling and training expenses, partially offset by higher travel expenses, courier charges and fuel consumption for vehicles.

Insurance and security services increased by Php34 million, or 20%, to Php204 million primarily due to higher site security expense and insurance premiums.

Asset impairment decreased by Php5 million, or 3%, to Php167 million primarily due to lower provision for obsolescence of slow-moving commercial inventory.

Amortization of intangible assets increased by Php4 million, or 17%, to Php27 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses increased by Php4 million, or 2%, to Php254 million primarily due to higher various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income – net for the three months ended March 31, 2011 and 2010:

	2011	2010	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Interest income	Php199	Php212	(Php13)	(6)
Foreign exchange gains – net	199	346	(147)	(42)
Equity share in net earnings of associates	132	393	(261)	(66)
Losses on derivative financial instruments – net	–	(1)	1	100
Financing costs – net	(667)	(779)	112	(14)
Others	148	86	62	72
Total	Php11	Php257	(Php246)	(96)

Our wireless business' other income amounted to Php11 million in the first quarter of 2011, a decrease of Php246 million, or 96%, from Php257 million in the same period in 2010 primarily due to the combined effects of the following: (i) decrease in equity share in net earnings of associates by Php261 million in the first quarter of 2011 mainly due to PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco offset against the increase in PCEV's direct and indirect share in the net earnings of Meralco; (ii) net decrease in foreign exchange gains by Php147 million on account of revaluation of foreign currency-denominated assets and liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) decrease in interest income by Php13 million mainly due to Smart's gain on the mark-to-market valuation of short-term investments in the first quarter of 2010; (iv) lower net financing costs by Php112 million primarily due to lower financing charges and interest on loans and other related items on account of Smart's lower average level of loan balances and interest rate, partly offset by higher accretion on financial liabilities and a decrease in capitalized interest; and (v) increase in other income by Php62 million mainly due to higher rental income and recovery of costs.

For the three months ended March 31, 2011, Meralco's reported and core income amounted to Php2,132 million and Php3,252 million, respectively, as compared with Php2,010 million and Php1,980 million, respectively, in the same period in 2010. These results were due to the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission as compared with the first quarter of 2010. The results of PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's results of operations, amounted to Php140 million and Php452 million, respectively, in the first quarter of 2011 and Php393 million and Php387 million, respectively, in the same period in 2010.

Provision for Income Tax

Provision for income tax increased by Php45 million, or 2%, to Php2,778 million in the first quarter of 2011 from Php2,733 million in the same period in 2010 due to higher taxable income. In the first quarter of 2011, the effective tax rate for our wireless business was 25% as compared with 24% in the same period in 2010.

Net Income

Our wireless business recorded a net income of Php8,381 million in the first quarter of 2011, a decrease of Php284 million, or 3%, from Php8,665 million recorded in the same period in 2010 on account of a decrease in wireless revenues by Php1,030 million, a decrease in other income by Php246 million and higher provision for income tax by Php45 million, partially offset by the decrease in wireless-related expenses by Php1,037 million.

EBITDA

Our wireless business' EBITDA increased by Php109 million, or 1%, to Php14,549 million in the first quarter of 2011 from Php14,440 million in the same period in 2010 primarily due to lower operating expenses particularly rent, selling and promotions, and cost of sales, partly offset by a decline in our wireless revenues.

Core Income

Our wireless business' core income increased by Php187 million, or 2%, to Php8,661 million in the first quarter of 2011 from Php8,474 million in the same period in 2010 on account of a decrease in wireless-related expenses and financing costs, as well as higher core income of Meralco, partially offset by a decrease in wireless revenues and higher provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php11,775 million in the first quarter of 2011, a decrease of Php1,178 million, or 9%, from Php12,953 million in the same period in 2010.

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

					Increase (Decrease)	
	2011	%	2010	%	Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php3,726	32	Php3,930	30	(Php204)	(5)
International long distance	1,184	10	1,519	12	(335)	(22)
National long distance	1,054	9	1,161	9	(107)	(9)
Data and other network	5,207	44	5,845	45	(638)	(11)
Miscellaneous	361	3	406	3	(45)	(11)
	11,532	98	12,861	99	(1,329)	(10)
Non-Service Revenues:						
Sale of computers, *PLDT Landline Plus*, or *PLP*, units and SIM cards	243	2	92	1	151	164
Total Fixed Line Revenues	Php11,775	100	Php12,953	100	(Php1,178)	(9)

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php1,329 million, or 10%, to Php11,532 million in the first quarter of 2011 from Php12,861 million in the same period in 2010 due to a decrease across our fixed line service revenues.

Local Exchange Service

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

			Increase (Decrease)	
	2011	**2010**	**Amount**	**%**
Total local exchange service revenues (in millions)	Php3,726	Php3,930	(Php204)	(5)
Number of fixed line subscribers	1,842,004	1,859,998	(17,994)	(1)
Postpaid	1,730,410	1,693,562	36,848	2
Prepaid	111,594	166,436	(54,842)	(33)
Number of fixed line employees	7,407	8,073	(666)	(8)
Number of fixed line subscribers per employee	249	230	19	8

Revenues from our local exchange service decreased by Php204 million, or 5%, to Php3,726 million in the first quarter of 2011 from Php3,930 million in the same period in 2010 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLP*. *PLP* offers both postpaid and prepaid wireless services, which allows subscribers to bring the telephone set anywhere within the home zone area. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 33% and 31% in the first quarter of 2011 and 2010, respectively.

International Long Distance Service

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

			Decrease	
	2011	**2010**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php1,184	Php1,519	(Php335)	(22)
Inbound	1,015	1,280	(265)	(21)
Outbound	169	239	(70)	(29)
International call volumes (in million minutes, except call ratio)	454	496	(42)	(8)
Inbound	411	441	(30)	(7)
Outbound	43	55	(12)	(22)
Inbound-outbound call ratio	9.6:1	8.0:1	–	–

Our total international long distance service revenues decreased by Php335 million, or 22%, to Php1,184 million in the first quarter of 2011 from Php1,519 million in the same period in 2010 primarily due to the decrease in the average settlement and collection rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.78 for the three months ended March 31, 2011 from Php46.00 for the three months ended March 31, 2010 and the decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 10% and 12% in the first quarter of 2011 and 2010, respectively.

Our revenues from inbound international long distance service decreased by Php265 million, or 21%, to Php1,015 million in the first quarter of 2011 from Php1,280 million in the same period in 2010 due to the decrease in the average settlement rate, decline in inbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php70 million, or 29%, to Php169 million in the first quarter of 2011 from Php239 million in the same period in 2010 primarily due to the decrease in average collection rate in dollar terms, the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.78 for the three months ended March 31, 2011 from Php46.00 for the three months ended March 31, 2010, resulting in a decrease in the average billing rates to Php43.94 in the first quarter of 2011 from Php46.25 in the same period in 2010, and the decline in outbound call volumes.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the three months ended March 31, 2011 and 2010:

	2011	2010	Decrease Amount	%
Total national long distance service revenues (in millions)	Php1,054	Php1,161	(Php107)	(9)
National long distance call volumes (in million minutes)	283	331	(48)	(15)

Our national long distance service revenues decreased by Php107 million, or 9%, to Php1,054 million in the first quarter of 2011 from Php1,161 million in the same period in 2010 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% in each of the first quarter of 2011 and 2010.

Data and Other Network Services

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

	2011	2010	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php5,207	Php5,845	(Php638)	(11)
Domestic	3,957	4,387	(430)	(10)
Broadband	*2,299*	*2,047*	*252*	*12*
DSL	2,234	1,990	244	12
WeRoam	65	57	8	14
Leased Lines and Others	*1,658*	*2,340*	*(682)*	*(29)*
International				
Leased Lines and Others	*1,250*	*1,458*	*(208)*	*(14)*
Subscriber base:				
Broadband	*693,524*	*607,616*	*85,908*	*14*
DSL	671,588	589,795	81,793	14
WeRoam	21,936	17,821	4,115	23
SWUP	*16,743*	*13,015*	*3,728*	*29*

In the first quarter of 2011, our data and other network services posted revenues of Php5,207 million, a decrease of Php638 million, or 11%, from Php5,845 million in the same period in 2010 primarily due to a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service, and the decrease in international data revenues, particularly from i-Gate, partially offset by an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*. The percentage contribution of this service segment to our fixed line service revenues accounted for 45% in each of the first quarter of 2011 and 2010.

Domestic

Domestic data services contributed Php3,957 million in the first quarter of 2011, a decrease of Php430 million, or 10%, as compared with Php4,387 million in the same period in 2010 mainly due to lower Diginet revenues, partially offset by the continued growth in DSL, *Shops.Work Unplugged*, or *SWUP*, and internet protocol-virtual private network, or IP-VPN subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services increased to 76% in the first quarter of 2011 from 75% in the same period in 2010.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php2,299 million in the first quarter of 2011, an increase of Php252 million, or 12%, from Php2,047 million in the same period in 2010 primarily due to the higher revenue contribution of DSL which contributed revenues of Php2,234 million in the first quarter of 2011 from Php1,990 million in the same period in 2010 as a result of the increase in the number of subscribers, partially offset by the lower ARPU as a result of the launching of lower-priced promotional plans. DSL revenues accounted for 43% and 34% of total data and other network service revenues in the first quarter of 2011 and 2010, respectively. DSL subscribers increased by 14% to 671,588 subscribers as at March 31, 2011 from 589,795 subscribers in the same period in 2010. *WeRoam* revenues amounted to Php65 million in the first quarter of 2011 from Php57 million in the same period in 2010 as subscribers increased by 23% to 21,936 subscribers in first quarter of 2011 from 17,821 subscribers in the same period in 2010.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at March 31, 2011, *SWUP* has a total subscriber base of 16,743 up by 29% from 13,015 subscribers in the same period in 2010. Leased lines and other data revenues amounted to Php1,658 million in the first quarter of 2011, a decrease of Php682 million, or 29%, from Php2,340 million in the same period in 2010 primarily due to a decrease in Diginet revenues, partially offset by the higher revenues from IP-VPN. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 32% and 40% in the first quarter of 2011 and 2010, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues decreased by Php208 million, or 14%, to Php1,250 million in the first quarter of 2011 from Php1,458 million in the same period in 2010 primarily due to absence of sub-lease transponder revenues resulting from the termination of sub-lease agreement with customers, a decrease in leased lines from Fibernet 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 24% and 25% in the first quarter of 2011 and 2010, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first quarter of 2011, these service revenues decreased by Php45 million, or 11%, to Php361 million from Php406 million in the same period in 2010 mainly due to a decrease in directory advertising and facilities management fees, partially offset by higher rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first quarter of 2011 and 2010.

Non-service Revenues

Non-service revenues increased by Php151 million, or 164%, to Php243 million in the first quarter of 2011 from Php92 million in the same period in 2010 primarily due to higher sales of PABX *On Call* equipment in the first quarter of 2011, partially offset by lower sales of *PLP* units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php8,915 million in the first quarter of 2011, a decrease of Php634 million, or 7%, as compared with Php9,549 million in the same period in 2010. The decrease was primarily due to lower expenses related to asset impairment, selling and promotions, repairs and maintenance, rent, and compensation and employee benefits, partly offset by higher expenses related to cost of sales, depreciation and amortization, and professional and other contracted services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 74% in the first quarter of 2011 and 2010, respectively.

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

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php3,040	34	Php2,910	30	Php130	4
Compensation and employee benefits[(1)]	2,343	26	2,453	26	(110)	(4)
Repairs and maintenance	1,031	12	1,188	12	(157)	(13)
Professional and other contracted services	820	9	690	7	130	19
Rent	610	7	722	8	(112)	(16)
Cost of sales	247	3	78	1	169	217
Selling and promotions	240	3	477	5	(237)	(50)
Taxes and licenses	198	2	181	2	17	9
Communication, training and travel	129	1	195	2	(66)	(34)
Insurance and security services	109	1	107	1	2	2
Asset impairment	11	–	382	4	(371)	(97)
Amortization of intangible assets	7	–	–	–	7	100
Other expenses	130	2	166	2	(36)	(22)
Total	Php8,915	100	Php9,549	100	(Php634)	(7)

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

Depreciation and amortization charges increased by Php130 million, or 4%, to Php3,040 million due to a higher depreciable asset base in the first quarter of 2011 as compared with the same period in 2010.

Compensation and employee benefits expenses decreased by Php110 million, or 4%, to Php2,343 million primarily due to lower salaries and employee benefits as a result of a lower headcount, as well as lower provisions for pension costs, partially offset by higher MRP and LTIP costs. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions* and *Note 24 – Employee Benefits* to the accompanying consolidated financial statements for further discussion.

Repairs and maintenance expenses decreased by Php157 million, or 13%, to Php1,031 million primarily due to lower IT software and hardware and buildings repairs and maintenance costs.

Professional and other contracted services increased by Php130 million, or 19%, to Php820 million primarily due to higher legal fees and contracted services and technical service fees for customer relationship management outsourcing project services, partially offset by lower management fees.

Rent expenses decreased by Php112 million, or 16%, to Php610 million due to a decrease in international leased circuit rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Cost of sales increased by Php169 million, or 217%, to Php247 million due to higher cost of SIM and *PLP* units sold for *PLP* prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Selling and promotion expenses decreased by Php237 million, or 50%, to Php240 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations expenses.

Taxes and licenses increased by Php17 million, or 9%, to Php198 million as a result of higher business-related taxes.

Communication, training and travel expenses decreased by Php66 million, or 34%, to Php129 million mainly due to lower foreign travel expenses, and mailing and courier charges, partially offset by higher foreign training expenses, fuel consumption and local travel expenses.

Insurance and security services increased by Php2 million, or 2%, to Php109 million primarily due to higher security services, partly offset by lower insurance and bond premiums.

Asset impairment decreased by Php371 million, or 97%, to Php11 million mainly due to lower provision for uncollectible receivables.

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

Other expenses decreased by Php36 million, or 22%, to Php130 million due to increases in various business and fixed line operational-related expenses.

Other Income

The following table summarizes the breakdown of our total fixed line-related other income – net for the three months ended March 31, 2011 and 2010:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains on derivative financial instruments – net	Php422	Php511	(Php89)	(17)
Foreign exchange gains – net	122	394	(272)	(69)
Interest income	115	152	(37)	(24)
Equity share in net losses of joint ventures	–	(64)	64	(100)
Financing costs – net	(848)	(1,057)	209	(20)
Others	209	177	32	18
Total	Php20	Php113	(Php93)	(82)

Our fixed line business' other income amounted to Php20 million in the first quarter of 2011, a decrease of Php93 million, or 82%, from Php113 million in the same period in 2010. The change was due to the combined effects of the following: (i) net decrease in foreign exchange gains by Php272 million on account of lower gains on net foreign exchange revaluation of foreign currency-denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) lower net gains on derivative financial instruments by Php89 million in the first quarter of 2011 due to lower mark-to-market valuation as a result of the increase in dollar interest rates, partially offset by lower hedge costs mainly due to the offsetting effect of overlay transactions in the first quarter of 2011; (iii) a decrease in interest income by Php37 million due to a lower average level of cash balances and the impact of the appreciation of the Philippine peso on dollar placements; (iv) increase in other income by Php32 million mainly due to the pension benefit income recognized by PLDT, partially offset by the loss on disposal of fixed assets; (v) share in net losses of joint ventures of Php64 million in the first quarter of 2010; and (vi) a decrease in net financing costs by Php209 million due to a decrease in interest expense on loans and related items – net on account of a lower average level of loan balances, higher capitalized interest and lower level of average interest rate.

Provision for Income Tax

Provision for income tax amounted to Php818 million in the first quarter of 2011, a decrease of Php125 million, or 13%, as compared with Php943 million in the same period in 2010 primarily due to lower taxable income. The effective tax rate of our fixed line business was 28% in the first quarter of 2011 from 27% in the same period in 2010.

Net Income

Our fixed line business contributed a net income of Php2,062 million in the first quarter of 2011, a decrease of Php512 million, or 20%, as compared with Php2,574 million in the same period in 2010 primarily as a result of decreases in fixed line revenues by Php1,178 million and other income by Php93 million, partially offset by lower fixed line-related expenses by Php634 million and lower provision for income tax by Php125 million.

EBITDA

Our fixed line business' EBITDA decreased by Php407 million, or 6%, to Php5,907 million in the first quarter of 2011 from Php6,314 million in the same period in 2010 primarily due to a decline in revenues from all our fixed line services, partly offset by lower provision for uncollectible receivables and lower cash operating expenses, mainly selling and promotions, repairs and maintenance, rent and compensation and employee benefits.

Core Income

Our fixed line business' core income decreased by Php238 million, or 13%, to Php1,615 million in the first quarter of 2011 from Php1,853 million in the same period in 2010 primarily as a result of the decrease in fixed line revenues, partially offset by a decrease in fixed line operating expenses and lower other expenses – net.

Information and Communications Technology

Revenues

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

Our ICT business generated revenues of Php2,771 million in the first quarter of 2011, an increase of Php101 million, or 4%, as compared with Php2,670 million in the same period in 2010. This increase was primarily due to higher revenue contributions of our knowledge processing solutions, internet and online gaming, and data center and other businesses, as well as higher point-product sales, partially offset by a decline in the revenue contribution of our customer relationship management business.

The following table summarizes our total revenues from our ICT business for the three months ended March 31, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php1,340	48	Php1,242	46	Php98	8
Customer relationship management	670	24	774	29	(104)	(13)
Internet and online gaming	275	10	263	10	12	5
Data center and others	412	15	340	13	72	21
	2,697	97	2,619	98	78	3
Non-Service Revenues:						
Point-product sales	74	3	51	2	23	45
Total ICT Revenues	Php2,771	100	Php2,670	100	Php101	4

Service Revenues

Service revenues generated by our ICT business amounted to Php2,697 million in the first quarter of 2011, an increase of Php78 million, or 3%, as compared with Php2,619 million in the same period in 2010 primarily as a result of the continued growth in our knowledge processing solutions, data center and others, and internet and online gaming businesses, partially offset by a decline in our customer relationship management business. As a percentage of our total ICT business revenues, service revenues accounted for 97% and 98% in the first quarter of 2011 and 2010, respectively.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php1,340 million in the first quarter of 2011, an increase of Php98 million, or 8%, from Php1,242 million in the same period in 2010. Dollar revenues increased by 13% offset by the appreciation of the Philippine peso to the U.S. dollar by 5%. Knowledge processing solutions business revenues accounted for 50% and 47% of total service revenues of our ICT business in the first quarter of 2011 and 2010, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php104 million, or 13%, to Php670 million in the first quarter of 2011 from Php774 million in the same period in 2010 primarily due to lower dollar-denominated revenues by 16% and the effect of the appreciation of the Philippine peso to the U.S. dollar, partially offset by higher domestic sales by 11%. In total, we own and operate 5,945 seats with an average of 3,409 customer service representatives, or CSRs, in the first quarter of 2011, as compared with 7,181 seats with an average of 4,605 CSRs in the same period in 2010. SPi CRM had six and seven customer relationship management sites as at March 31, 2011 and 2010, respectively. Customer relationship management business revenues accounted for 25% and 30% of total service revenues of our ICT business in the first quarter of 2011 and 2010, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business increased by Php12 million, or 5%, to Php275 million in the first quarter of 2011 from Php263 million in the same period in 2010 primarily due to the introduction of a new game and the strong performance of existing major games, higher sales from retail and desk printing transactions, as well as the addition of new clients. Our internet and online gaming business revenues accounted for 10% of total service revenues of our ICT business in each of the first quarter of 2011 and 2010.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*™, which provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls, and other data services. In the first quarter of 2011, our data center contributed revenues of Php412 million, an increase of Php72 million, or 21%, from Php340 million in the same period in 2010 primarily due to an increase in co-location or rental, managed service revenues, and regional sales of a branded software. Our data center revenues accounted for 15% and 13% of total service revenues of our ICT business in the first quarter of 2011 and 2010, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first quarter of 2011, non-service revenues generated by our ICT business increased by Php23 million, or 45%, to Php74 million from Php51 million in the same period in 2010 primarily due to the higher revenues from sales of software licenses.

Expenses

Expenses associated with our ICT business totaled Php2,547 million in the first quarter of 2011, a decrease of Php9 million as compared with Php2,556 million in the same period in 2010, primarily due to lower expenses related to amortization of intangible assets, professional and other contracted services, taxes and licenses, selling and promotions, and asset impairment, partially offset by higher expenses related to cost of sales, repairs and maintenance, rent, and insurance and security services. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 92% and 96% in the first quarter of 2011 and 2010, respectively.

The following table shows the breakdown of our total ICT-related expenses for the three months ended March 31, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits[1]	Php1,504	59	Php1,507	59	(Php3)	–
Depreciation and amortization	189	7	188	7	1	1
Repairs and maintenance	177	7	152	6	25	16
Rent	174	7	167	7	7	4
Professional and other contracted services	131	5	156	6	(25)	(16)
Cost of sales	120	4	79	3	41	52
Communication, training and travel	105	4	109	4	(4)	(4)
Amortization of intangible assets	41	2	68	3	(27)	(40)
Taxes and licenses	20	1	31	1	(11)	(35)
Selling and promotions	20	1	26	1	(6)	(23)
Insurance and security services	20	1	17	1	3	18
Asset impairment	3	–	8	–	(5)	(63)
Other expenses	43	2	48	2	(5)	(10)
Total	Php2,547	100	Php2,556	100	(Php9)	–

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

Compensation and employee benefits decreased by Php3 million to Php1,504 million mainly due to a decline in MRP costs, partially offset by higher salaries and benefits, pension benefits and LTIP. ePLDT and its subsidiaries' employee headcount increased by 1,761, or 12%, to 17,003 in the first quarter of 2011 as compared with 15,242 in the same period in 2010.

Depreciation and amortization increased by Php1 million, or 1%, to Php189 million primarily due to higher depreciation in relation to our data center expansion partially offset by a decrease in the depreciable asset base of our knowledge processing solutions and internet and online gaming businesses on account of higher fully depreciated assets.

Repairs and maintenance expenses increased by Php25 million, or 16%, to Php177 million primarily due to the higher office and site electricity charges, and higher IT software repairs and maintenance costs particularly from our data center business, partially offset by a decrease in buildings repairs and maintenance costs.

Rent expenses increased by Php7 million, or 4%, to Php174 million primarily due to higher office building and site rental charges by our customer relationship management and data center businesses.

Professional and other contracted services decreased by Php25 million, or 16%, to Php131 million primarily due to lower contracted service fees, management fees, legal fees and other professional fees.

Cost of sales increased by Php41 million, or 52%, to Php120 million primarily due to the higher volume of sales of software licenses and hardware products.

Communication, training and travel expenses decreased by Php4 million, or 4%, to Php105 million primarily due to lower local and foreign training and travel expenses, courier charges and fuel consumption, partially offset by higher communication charges incurred by our customer relationship management and knowledge processing solutions businesses. Moreover, our data center business incurred lower trunk line charges in the first quarter of 2011.

Amortization of intangible assets decreased by Php27 million, or 40%, to Php41 million due to the full impairment of intangible assets related to CyMed and SPi Global in December 2010.

Taxes and licenses decreased by Php11 million, or 35%, to Php20 million primarily due to lower business-related taxes.

Selling and promotion expenses decreased by Php6 million, or 23%, to Php20 million mainly due to our gaming business' lower promotional expenses due to prioritization of spending to profitable games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Insurance and security services increased by Php3 million, or 18%, to Php20 million primarily due to higher security services and insurance premiums.

Asset impairment decreased by Php5 million, or 63%, to Php3 million primarily due to lower provision for uncollectible receivables.

Other expenses decreased by Php5 million, or 10%, to Php43 million mainly due to lower various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income – net for the three months ended March 31, 2011 and 2010:

			Change	
	2011	**2010**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php60	Php40	Php20	50
Interest income	9	8	1	13
Gains on derivative financial instruments – net	–	2	(2)	(100)
Foreign exchange losses – net	(1)	(32)	31	(97)
Financing costs – net	(17)	(44)	27	(61)
Others	44	38	6	16
Total	Php95	Php12	Php83	692

Our ICT business' other income amounted to Php95 million in the first quarter of 2011, an increase of Php83 million, or 692%, from Php12 million in the same period in 2010 primarily due to the combined effects of the following: (i) net decrease in foreign exchange losses by Php31 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in the first quarter of 2011; (ii) a decrease in financing costs – net by Php27 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (iii) an increase in equity share in net earnings of associates by Php20 million; (iv) an increase in other income by Php6 million mainly due to the reversal of prior year's provision by our data center business, partially offset by the lower gain on the disposal of fixed assets in the first quarter of 2011; (v) an increase in interest income of Php1 million due to increase in short-term placements and bank deposits; and (vi) gain on derivative financial instruments by Php2 million in the first quarter of 2010.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php36 million in the first quarter of 2011 as against a benefit from income tax of Php9 million in the same period in 2010 primarily due to higher taxable income.

Net Income

Our ICT business registered a net income of Php283 million in the first quarter of 2011 from Php135 million in the same period in 2010 mainly as a result of an increase in ICT revenues by Php101 million, an increase in other income by Php83 million and a decrease in ICT-related expenses by Php9 million, partially offset by a net provision for income tax by Php45 million.

EBITDA

Our ICT business' EBITDA increased by Php84 million, or 23%, to Php454 million in the first quarter of 2011 from Php370 million in the same period in 2010 primarily due to higher service revenues, partially offset by higher operating expenses particularly cost of sales and repairs and maintenance.

Core Income

Our ICT business' core income amounted to Php280 million in the first quarter of 2011, an increase of Php122 million, or 77%, as compared with Php158 million in the same period in 2010 mainly as a result of increases in ICT revenues and other income, partially offset by an increase in net provision for income tax.

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2011	**2010**
(in millions)	**(Unaudited)**	
Cash Flows		
Net cash provided by operating activities	Php20,830	19,566
Net cash used in investing activities	2,699	1,657
Capital expenditures	*3,112*	*5,206*
Net cash provided by (used in) financing activities	1,224	(5,149)
Net increase in cash and cash equivalents	19,291	12,614

	March 31, 2011	**December 31, 2010**
(in millions)	**(Unaudited)**	**(Audited)**
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php79,681	Php75,879
Obligations under finance lease	8	9
	79,689	75,888
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	14,160	13,767
Obligations under finance lease maturing within one year	7	34
	14,167	13,801
Total interest-bearing financial liabilities	93,856	89,689
Total equity attributable to equity holders of PLDT	80,837	97,069
	Php174,693	Php186,758
Other Selected Financial Data		
Total assets	Php292,299	Php277,815
Property, plant and equipment	159,662	163,184
Cash and cash equivalents	55,969	36,678
Short-term investments	644	669

As at March 31, 2011, our consolidated cash and cash equivalents and short-term investments totaled Php56,613 million. Principal sources of consolidated cash and cash equivalents in the first quarter of 2011 were cash flows from operating activities amounting to Php20,830 million, net proceeds from availment of long-term debt of Php9,750 million, interest received of Php288 million and dividends received of Php182 million. These funds were used principally for: (1) capital outlays of Php3,112 million; (2) total debt principal and interest payments of Php5,451 million and Php1,230 million, respectively; (3) settlements of derivative financial instruments of Php165 million; and (4) dividend payments of Php53 million.

As at March 31, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php51,636 million. Principal sources of consolidated cash and cash equivalents in the first quarter of 2010 were cash flows from operating activities amounting to Php19,566 million, net proceeds from maturity of short-term investments of Php3,113 million and interest received of Php383 million. These funds were used principally for: (1) capital outlays of Php5,206 million; (2) total debt principal and interest payments of Php3,284 million and Php1,443 million, respectively; (3) settlements of derivative financial instruments of Php229 million; and (4) dividend payments of Php108 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first quarter of 2011 increased by Php1,264 million, or 6%, to Php20,830 million from Php19,566 million in the same period in 2010 primarily due to the lower level of outstanding receivables partially offset by higher settlement of various payables.

Cash flows provided by operating activities of our fixed line business amounted to Php6,395 million in the first quarter of 2011, an increase of Php545 million, or 9%, as compared with Php5,850 million in the same period in 2010 primarily due to an increase in collection of accounts receivables, partially offset by higher level of settlement of accounts payable and other current liabilities in the first quarter of 2011. Cash flows from operating activities of our ICT business also increased by Php522 million, or 137%, to Php904 million in the first quarter of 2011 from Php382 million in the same period in 2010 mainly due to a lower level of settlement of accounts payable and higher level of collection of outstanding receivables in the first quarter of 2011. Cash flows from operating activities of our wireless business amounted to Php13,533 million in the first quarter of 2011, an increase of Php194 million, or 1%, as compared with Php13,339 million in the same period in 2010. The increase in our wireless business segment's cash flows from operating activities was a result of an increase in collection of receivables mainly from dealers and carriers, partially offset by a higher level of settlement of accounts payable.

Investing Activities

Consolidated net cash used in investing activities amounted to Php2,699 million in the first quarter of 2011, an increase of Php1,042 million, or 63%, as compared with Php1,657 million in the same period in 2010 primarily due to the combined effects of the following: (1) the lower net proceeds from the maturity of short-term investments by Php3,139 million; (2) the lower interest received by Php95 million; (3) the decrease in capital expenditures by Php2,094 million in the first quarter of 2011; and (4) the higher dividends received in the first quarter of 2011 by Php178 million.

Our consolidated capital expenditures in the first quarter of 2011 totaled Php3,112 million, a decrease of Php2,094 million, or 40%, as compared with Php5,206 million in the same period in 2010 primarily due to the decrease in Smart's and PLDT's capital spending. PLDT's capital spending of Php1,698 million in the first quarter of 2011 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php1,235 million in the first quarter of 2011 was used primarily to modernize and expand its 2G, 3G and fixed wireless broadband networks. ePLDT and its subsidiaries' capital spending of Php165 million in the first quarter of 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php14 million represented other subsidiaries' capital spending.

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

Dividends received in the first quarter of 2011 amounted to Php182 million, an increase of Php178 million, as compared with Php4 million in the same period in 2010. The dividends received in the first quarter of 2011 were from Meralco, while the dividends received in the same period in 2010 were from ePDS, Inc.

Financing Activities

On a consolidated basis, net cash provided by financing activities amounted to Php1,224 million in the first quarter of 2011 as against net cash used in financing activities of Php5,149 million in the same period in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt by Php9,750 million; (2) lower interest payments by Php213 million; (3) lower settlements of derivative financial instruments by Php64 million; (4) lower cash dividend payments by Php55 million; (5) higher availment of capital expenditures under long-term financing by Php1,529 million; and (6) lower repayments of long-term debt by Php2,167 million.

Debt Financing

Additions to our consolidated debt for the three months ended March 31, 2011 totaled Php9,750 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php5,451 million and Php1,230 million, respectively, in the first quarter of 2011.

Our consolidated long-term debt increased by Php4,195 million, or 5%, to Php93,841 million in the first quarter of 2011 from Php89,646 million on December 31, 2010, largely due to drawings from our term loan facilities, partially offset by debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php43.41 as at March 31, 2011 from Php43.81 as at December 31, 2010. The long-term debt levels of PLDT and Smart increased by 8% and 1% to Php52,882 million and Php40,851 million, respectively, as at March 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 and 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. The aggregate amount of Php1,250 million remained outstanding as at March 31, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. 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 March 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 March 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 March 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 amount of Php300 million was fully drawn on April 28, 2011. The loan is payable in full upon maturity on April 29, 2016.

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, and remains undrawn to date. The loan is payable in full at the end of five years and one day after the drawdown date.

Approximately Php58,408 million principal amount of our consolidated outstanding long-term debt as at March 31, 2011 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php34,767 million is attributable to Smart, Php23,533 million to PLDT, and the remainder to ePLDT's subsidiaries.

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

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first quarter of 2011 amounted to Php53 million as compared with Php108 million paid to shareholders in the same period in 2010. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our 2010 core earnings per share. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately a 100% payout of our 2009 core earnings per share.

Off-Statement of Financial Position Arrangements

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

Equity Financing

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

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at March 31, 2011 and 2010, see *Note 26 – 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 Php955 million and Php1,145 million as at March 31, 2011 and December 31, 2010, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at March 31, 2011 and December 31, 2010:

	Fair Values	
	2011	**2010**
(in millions)	**(Unaudited)**	**(Audited)**
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php79	Php78
Unlisted equity securities	69	69
Investments in debt securities	496	502
Derivative financial assets	238	178
Advances and refundable deposits – net of current portion	917	915
Total noncurrent financial assets	1,799	1,742
Current Financial Assets		
Cash and cash equivalents	55,969	36,678
Short-term investments	644	669
Trade and other receivables – net	15,031	16,428
Derivative financial assets	24	5
Current portion of advances and refundable deposits	14	16
Total current financial assets	71,682	53,796
Total Financial Assets	**Php73,481**	**Php55,538**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php80,820	Php82,252
Derivative financial liabilities	3,154	3,604
Customers' deposits	1,599	1,701
Deferred credits and other noncurrent liabilities	9,767	11,457
Total noncurrent financial liabilities	95,340	99,014
Current Financial Liabilities		
Accounts payable	21,915	23,673
Accrued expenses and other current liabilities	29,579	28,822
Interest-bearing financial liabilities	14,167	13,801
Dividends payable	28,958	2,086
Total current financial liabilities	94,619	68,382
Total Financial Liabilities	**Php189,959**	**Php167,396**

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the three months ended March 31, 2011 and for the year ended December 31, 2010:

	2011	2010
(in millions)	**(Unaudited)**	**(Audited)**
Profit and Loss		
Interest income	Php321	Php1,200
Gains (losses) on derivative financial instruments – net	422	(1,741)
Accretion on financial liabilities – net	(291)	(1,177)
Interest on loans and other related items	(1,358)	(6,181)
Other Comprehensive Income		
Net gains on available-for-sale financial assets – net of tax	2	22
Revaluation increment on investment properties – net	–	314
	(Php904)	**(Php7,563)**

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in the first quarter of 2011 was 3.9% as compared with 4.2% in the same period in 2010. Moving forward, we expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

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

On March 29, 2011, the Board of Directors of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digitel comprising of: (i) 3,277,135,882 common shares in Digitel, representing approximately 51.55% of the issued common stock; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible at June 2011, into approximately 18.6 billion common shares of Digitel; and (iii) intercompany advances of Php34.1 billion made by JGS to Digitel (the "Assets"). Digitel operates a fixed line business in certain parts of the country and is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

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

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

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

The completion of the acquisition will be 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 approval by the Philippine SEC of the valuation of the Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets and the Digitel shares which shall have been tendered pursuant to the tender offer. In addition, the sale of the Digitel shares owned by the seller-parties is subject to the consent of certain creditors of Digitel and DMPI.

This transaction is intended to be completed by the end of the second quarter of 2011.

ePLDT's Sale of Investment in Digital Paradise

On April 1, 2011, ePLDT entered into a share purchase agreement for the sale of its 75% interest in Digital Paradise to IP E-Game Ventures, Inc., or E-Games, a subsidiary of technology conglomerate IPVG Corp.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 23 –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 March 31, 2011:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php8,417	Php1,903	Php966	Php135	Php5,413
Corporate subscribers	8,375	1,041	1,384	581	5,369
Foreign administrations	4,456	1,573	953	618	1,312
Domestic carriers	1,544	238	158	161	987
Dealers, agents and others	4,147	3,163	23	347	614
Total	Php26,939	Php7,918	Php3,484	Php1,842	Php13,695
Less: Allowance for doubtful accounts	11,908				
Total Receivables - net	**Php15,031**				

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________

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

Signature and Title: ______________________________

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

Date: May 10, 2011