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, 2012

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

COVER SHEET

P W - 5 5
S.E.C. Registration No.

P H I L I P P I N E   L O N G   D I S T A N C E
T E L E P H O N E   C O M P A N Y
(Company's Full Name)

R A M O N   C O J U A N G C O   B L D G .
M A K A T I   A V E .   M A K A T I   C I T Y
(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL-REVILLA
Contact Person

816-8534
Company Telephone Number

1 2 | 3 1
Month Day
Fiscal Year

SEC FORM 17-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

12,359
As of March 31, 2012
Total No. of Stockholders

N/A
Domestic

N/A
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, 2012

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	216,055,775 shares as at March 31, 2012

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, 2012 (unaudited) and December 31, 2011 (audited) and for the three months ended March 31, 2012 and 2011 and related notes (pages F-1 to F-126) 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 (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 Php42.93 to US$1.00, the volume weighted average exchange rate as at March 31, 2012 quoted through the Philippine Dealing System.

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

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

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, 2012[1] (Unaudited)	December 31, 2011[1] (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php400,286	Php395,646	Php4,640	1
Property, plant and equipment – net	192,968	197,731	(4,763)	(2)
Cash and cash equivalents and short-term investments	47,399	46,615	784	2
Total equity attributable to equity holders of PLDT	136,775	151,833	(15,058)	(10)
Notes payable and long-term debt, including current portion	114,088	117,275	(3,187)	(3)
Net debt[2] to equity ratio	0.49x	0.47x	–	–

	Three Months Ended March 31, 2012[1]	2011	Increase (Decrease) Amount	%
Consolidated Income Statements				
Revenues[3]	Php43,576	Php38,280	Php5,296	14
Expenses[3]	30,643	24,004	6,639	28
Other income	933	82	851	1,038
Income before income tax	13,866	14,358	(492)	(3)
Net income	10,070	10,726	(656)	(6)
Net income attributable to equity holders of PLDT:				
Reported net income	10,079	10,734	(655)	(6)
Core income	9,308	10,556	(1,248)	(12)
EBITDA	20,467	20,954	(487)	(2)
EBITDA margin[3] and [4]	48%	56%	(8%)	(14)
Reported earnings per common share:				
Basic	46.59	56.87	(10.28)	(18)
Diluted	46.59	56.78	(10.19)	(18)
Core earnings per common share[5]:				
Basic	43.03	55.91	(12.88)	(23)
Diluted	43.03	55.84	(12.81)	(23)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	18,592	20,830	(2,238)	(11)
Net cash used in investing activities	5,610	2,699	2,911	108
Capital expenditures	*2,751*	*3,112*	*(361)*	*(12)*
Net cash provided by (used in) financing activities	(12,102)	1,224	(13,326)	(1,089)
Operational Data				
Number of cellular subscribers	66,109,953	46,656,685	19,453,268	42
Number of fixed line subscribers	2,151,136	1,842,004	309,132	17
Number of broadband subscribers:	2,999,591	2,100,743	898,848	43
Fixed Line	*886,678*	*693,524*	*193,154*	*28*
Wireless	*2,112,913*	*1,407,219*	*705,694*	*50*
Number of employees:	35,405	29,463	5,942	20
Fixed Line	*11,706*	*9,558*	*2,148*	*22*
LEC	*9,064*	*7,407*	*1,657*	*22*
Others	*2,642*	*2,151*	*491*	*23*
Wireless	*8,063*	*5,053*	3,010	*60*
Business Process Outsourcing	*15,636*	*14,852*	*784*	*5*

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
March 31, 2012	Php42.93	Php43.03
December 31, 2011	43.92	43.31
March 31, 2011	43.41	43.78
December 31, 2010	43.81	45.12

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(1) *Includes the Digitel Group's financial information and operational data as at March 31, 2012 and December 31, 2011, and for the first quarter of 2012.*

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

(3) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed below, and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

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

(5) *Core earnings per common share, or core EPS, is measured as core income attributable to common equity holders of PLDT divided by the weighted average number of common shares for the period.*

As discussed in Other Information and *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel* to the accompanying unaudited consolidated financial statements, the acquisition of Digitel was completed on October 26, 2011. Incremental impact of the Digitel Group on our consolidated financial highlights and results of operations as at and for the three months ended March 31, 2012, as set forth in the table below:

(in millions, except for EBITDA margin and operational data)	Digitel Group	Intercompany Transactions	Incremental Impact of the Digitel Group on PLDT Group
Income Statements			
Revenues	Php5,867	(Php172)	Php5,695
Expenses	5,716	(151)	5,565
Other income	2,698	(1,978)	720
Income before income tax	2,849	(1,999)	850
Net income for the period	2,689	(1,999)	690
Net income attributable to equity holders:			
Reported net loss	2,690	(1,999)	691
Core income	108	131	239
EBITDA	1,653	(21)	1,632
EBITDA margin[1]	29%	–	29%
Statements of Cash Flows			
Net cash provided by operating activities	1,778	–	1,778
Net cash used in investing activities	29	–	29
Capital expenditures	*33*	–	*33*
Net cash used in financing activities	1,278	–	1,278
Operational Data			
Number of cellular subscribers	15,579,457	–	15,579,457
Number of fixed line subscribers	292,504	–	292,504
Number of broadband subscribers	601,786	–	601,786
Fixed Line	*107,232*	–	*107,232*
Wireless	*494,554*	–	*494,554*

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

Change in the Presentation of our Outbound Revenues

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

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Connectivity Unlimited Resource Enterprise, or CURE, and Digital Mobile Philippines, Inc., or DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digital Telecommunications Inc., or Digitel (PLDT acquired a controlling interest in Digitel on October 26, 2011 and through a series of transactions holds approximately 99.5% of the outstanding common stock of Digitel as at March 31, 2012), our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and its subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global Corporation, or PLDT Global, and Digitel, all of which together account for approximately 17% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and ABM Global Solutions, Inc. (formerly known as BayanTrade, Inc.), or AGS, and its subsidiaries, or AGS Group; netGames, Inc.; and bills printing and other value-added services, or VAS, -related services provided by ePDS, Inc., or ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% on August 24, 2011). ePLDT disposed of its 75% interest in Digital Paradise, a provider of internet access services, on April 1, 2011 and its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011;

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

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

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

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

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

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

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

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

Performance Indicators

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

EBITDA

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

Core Income

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

Management's Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the three months ended March 31, 2012 and 2011 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, 2012 and 2011:

	2012	**2011**
	(in millions)	
Consolidated EBITDA	Php20,467	Php20,954
Foreign exchange gains – net	1,236	320
Interest income	357	321
Equity share in net earnings of associates and joint ventures	274	192
Amortization of intangible assets	(64)	(75)
Gains (losses) on derivative financial instruments – net	(95)	422
Financing costs – net	(1,681)	(1,530)
Depreciation and amortization	(7,470)	(6,603)
Other income	842	357
Consolidated income before income tax	13,866	14,358
Provision for income tax	(3,796)	(3,632)
Consolidated net income	Php10,070	Php10,726

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the three months ended March 31, 2012 and 2011:

	2012	2011
	(in millions)	
Consolidated core income	Php9,308	Php10,556
Foreign exchange gains – net	1,236	311
Gains (losses) on derivative financial instruments – net, excluding hedge cost	(7)	511
Core income adjustment on equity share in net earnings of associates and joint ventures	(89)	(312)
Others	–	(85)
Net tax effect of aforementioned adjustments	(369)	(247)
Net income attributable to equity holders of PLDT	10,079	10,734
Net income (loss) attributable to noncontrolling interests	(9)	(8)
Consolidated net income	Php10,070	Php10,726

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the three months ended March 31, 2012 and 2011. In each of the three months ended March 31, 2012 and 2011, we generated a majority of our revenues from our operations within the Philippines.

	Wireless		Fixed Line		BPO		Others		Inter-segment Transactions		Consolidated	
					(in millions)							
For the three months ended March 31, 2012												
Revenues	Php29,531		Php15,791		Php2,415		Php–		(Php4,161)		Php43,576	
Expenses	19,650		13,172		2,069		5		(4,253)		30,643	
Other income (expenses)	924		(373)		36		438		(92)		933	
Income before income tax	10,805		2,246		382		433		–		13,866	
Provision for income tax	3,224		477		90		5		–		3,796	
Net income/Segment profit	7,581		1,769		292		428		–		10,070	
EBITDA	14,019		5,858		503		(5)		92		20,467	
EBITDA margin[(1)]	48%		38%		21%		–		–		48%	
Core income	6,925		1,598		268		517		–		9,308	
For the three months ended March 31, 2011												
Revenues	25,402		14,647		2,010		–		(3,779)		38,280	
Expenses	14,250		11,743		1,843		4		(3,836)		24,004	
Other income (expenses)	(212)		130		(1)		222		(57)		82	
Income before income tax	10,940		3,034		166		218		–		14,358	
Provision for income tax	2,772		846		9		5		–		3,632	
Net income/Segment profit	8,168		2,188		157		213		–		10,726	
EBITDA	14,553		6,043		305		(4)		57		20,954	
EBITDA margin[(1)]	58%		42%		15%		–		–		56%	
Core income	8,136		1,734		161		525		–		10,556	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Revenues	Php4,129	16	Php1,144	8	Php405	20	Php–	–	(Php382)	10	Php5,296	14
Expenses	5,400	38	1,429	12	226	12	1	25	(417)	11	6,639	28
Other income (expenses)	1,136	536	(503)	(387)	37	3,700	216	97	(35)	61	851	1,038
Income before income tax	(135)	(1)	(788)	(26)	216	130	215	99	–	–	(492)	(3)
Provision for income tax	452	16	(369)	(44)	81	900	–	–	–	–	164	5
Net income /Segment profit (loss)	(587)	(7)	(419)	(19)	135	86	215	101	–	–	(656)	(6)
EBITDA	(534)	(4)	(185)	(3)	198	65	(1)	25	35	61	(487)	(2)
Core income	(1,211)	(15)	(136)	(8)	107	66	(8)	(2)	–	–	(1,248)	(12)

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

The table below shows the contribution by business segment of the results of the Digitel Group to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the first quarter of 2012.

	Wireless	Fixed Line	Consolidated	Intercompany Transactions	Incremental Effect on PLDT Group
			(in millions)		
Revenues	Php4,821	Php1,046	Php5,867	(Php172)	Php5,695
Expenses	4,919	797	5,716	(151)	5,565
Other income	711	1,987	2,698	(1,978)	720
Income before income tax	613	2,236	2,849	(1,999)	850
Provision for income tax	155	5	160	–	160
Net income /Segment profit	458	2,231	2,689	(1,999)	690
EBITDA	1,271	382	1,653	(21)	1,632
EBITDA margin[1]	27%	37%	29%	–	29%
Core income	17	91	108	131	239

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

On a Consolidated Basis

We reported consolidated revenues of Php43,576 million, which includes revenue contribution from the Digitel Group of Php5,695 million, in the first quarter of 2012, an increase of Php5,296 million, or 14%, as compared with Php38,280 million in the same period in 2011, primarily due to an increase in our service revenues by Php5,073 million as a result of higher cellular and broadband revenues from our wireless business, higher revenues from data and other network, local exchange and international long distance services of our fixed line business, as well as higher service revenues from our BPO business, partially offset by lower revenues from national long distance service of our fixed line business.

The following table shows the breakdown of our consolidated revenues by business segment for the three months ended March 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php29,531	68	Php25,402	67	Php4,129	16
Fixed line	15,791	36	14,647	38	1,144	8
BPO	2,415	6	2,010	5	405	20
Inter-segment transactions	(4,161)	(10)	(3,779)	(10)	(382)	10
Consolidated	Php43,576	100	Php38,280	100	Php5,296	14

(1) *Includes the Digitel Group's results of operations for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated expenses increased by Php6,639 million, or 28%, to Php30,643 million in the first quarter of 2012, which includes expenses from the Digitel Group of Php5,565 million, from Php24,004 million in the same period in 2011, largely as a result of higher cost of sales, repairs and maintenance, depreciation and amortization, compensation and employee benefits, selling and promotions, rent, asset impairment, professional and other contracted services, and taxes and licenses, partly offset by decreases in amortization of intangible assets and other operating expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the three months ended March 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php19,650	64	Php14,250	59	Php5,400	38
Fixed line	13,172	43	11,743	49	1,429	12
BPO	2,069	7	1,843	8	226	12
Others	5	–	4	–	1	25
Inter-segment transactions	(4,253)	(14)	(3,836)	(16)	(417)	11
Consolidated	Php30,643	100	Php24,004	100	Php6,639	28

[1] *Includes the Digitel Group's results of operations for the first quarter of 2012.*
[2] *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated other income in the first quarter of 2012, which includes other income from the Digitel Group of Php720 million, amounted to Php933 million, an increase of Php851 million from Php82 million in the same period in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php916 million due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of a higher level of appreciation of the Philippine peso to the U.S. dollar; (ii) an increase in other income by Php485 million mainly due to the effect of the inclusion of Digitel's other income, higher net gain on fixed assets disposal and the reversal of prior year's provisions, partially offset by lower pension benefit income recognized by PLDT; (iii) net increase in equity share in net earnings of associates and joint ventures by Php82 million; (iv) higher interest income by Php36 million due to a higher average level of investments, higher average interest rates, partly offset by the effect of higher appreciation of the Philippine peso relative to the U.S. dollar and shorter average tenor of placements; (v) an increase in net financing costs by Php151 million mainly due to higher interest on loans and other related items on account of higher average interest rate, partially offset by our wireless business' higher capitalized interest in the first quarter of 2011; and (vi) net losses on derivative financial instruments of Php95 million in the first quarter of 2012 as against net gains on derivative financial instruments of Php422 million in the same period in 2011 mainly due to the effect of a narrower U.S. dollar and peso interest rate differentials and higher level of appreciation of the Philippine peso to the U.S. dollar in the first quarter of 2012, partially offset by lower hedge costs.

The following table shows the breakdown of our consolidated other income by business segment for the three months ended March 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php924	99	(Php212)	(259)	1,136	(536)
Fixed line	(373)	(40)	130	159	(503)	(387)
BPO	36	4	(1)	(1)	37	3,700
Others	438	47	222	271	216	97
Inter-segment transactions	(92)	(10)	(57)	(70)	(35)	61
Consolidated	Php933	100	Php82	100	Php851	1,038

[1] *Includes the Digitel Group's results of operations for the first quarter of 2012.*
[2] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Consolidated net income decreased by Php656 million, or 6%, to Php10,070 million, which includes net income contribution from the Digitel Group of Php690 million, in the first quarter of 2012, from Php10,726 million in the same period in 2011. The decrease was mainly due to the combined effects of the following: (i) an increase in consolidated expenses by Php6,639 million; (ii) an increase in consolidated provision for income tax by Php164 million, which was mainly due to higher taxable income from our wireless and BPO businesses, partially offset by lower taxable income of our fixed line business; (iii) an increase in consolidated revenues by Php5,296 million; and (iv) an increase in consolidated other income by Php851 million. Our consolidated basic and diluted EPS decreased to Php46.59 in the first quarter of 2012 from consolidated basic and diluted EPS of Php56.87 and Php56.78, respectively, in the same period in 2011. Our weighted average number of outstanding common shares was approximately 216.1 million and 186.8 million in the three months ended March 31, 2012 and 2011, respectively.

The following table shows the breakdown of our consolidated net income by business segment for the three months ended March 31, 2012 and 2011:

					Change	
	2012[(1)]	**%**	**2011**[(2)]	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php7,581	75	Php8,168	76	(Php587)	(7)
Fixed line	1,769	18	2,188	20	(419)	(19)
BPO	292	3	157	2	135	86
Others	428	4	213	2	215	101
Consolidated	Php10,070	100	Php10,726	100	(Php656)	(6)

(1) *Includes the Digitel Group's results of operations for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

EBITDA

Our consolidated EBITDA in the first quarter of 2012, which includes an EBITDA contribution from the Digitel Group of Php1,632 million, amounted to Php20,467 million, a decrease of Php487 million, or 2%, as compared with Php20,954 million in the same period in 2011, primarily due to higher operating expenses driven by higher cost of sales, repairs and maintenance, compensation and employee benefits, selling and promotions expenses, rent, professional and other contracted services, and taxes and licenses, as well as higher provision for uncollectible receivables.

The following table shows the breakdown of our consolidated EBITDA by business segment for the three months ended March 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php14,019	68	Php14,553	69	(Php534)	(4)
Fixed line	5,858	29	6,043	29	(185)	(3)
BPO	503	3	305	2	198	65
Others	(5)	–	(4)	–	(1)	25
Inter-segment transactions	92	–	57	–	35	61
Consolidated	Php20,467	100	Php20,954	100	(Php487)	(2)

(1) *Includes the Digitel Group's results of operations for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Core Income

Our consolidated core income in the first quarter of 2012, which includes core income from the Digitel Group of Php239 million, amounted to Php9,308 million, a decrease of Php1,248 million, or 12%, as compared with Php10,556 million in the same period in 2011, primarily due to increases in consolidated expenses and consolidated provision for income tax, partially offset by an increase in consolidated revenues and an increase in consolidated other income. Our consolidated basic and diluted core EPS also decreased to Php43.03 in the first quarter of 2012 from Php55.91 and Php55.84, respectively, in the same period in 2011.

The following table shows the breakdown of our consolidated core income by business segment for the three months ended March 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	Increase (Decrease) %
			(in millions)			
Wireless	Php6,925	74	Php8,136	77	(Php1,211)	(15)
Fixed line	1,598	17	1,734	16	(136)	(8)
BPO	268	3	161	2	107	66
Others	517	6	525	5	(8)	(2)
Consolidated	Php9,308	100	Php10,556	100	(Php1,248)	(12)

(1) *Includes the Digitel Group's results of operations for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php29,531 million, including a contribution from DMPI of Php4,821 million, in the first quarter of 2012, an increase of Php4,129 million, or 16%, from Php25,402 million in the same period in 2011.

The following table summarizes our total revenues from our wireless business for the three months ended March 31, 2012 and 2011 by service segment:

					Increase (Decrease)	
	2012[1]	%	2011[2]	%	Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php26,353	89	Php23,101	91	Php3,252	14
Wireless broadband, satellite and others						
Wireless broadband	2,164	7	1,583	6	581	37
Satellite and others	396	2	448	2	(52)	(12)
	28,913	98	25,132	99	3,781	15
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	618	2	270	1	348	129
Total Wireless Revenues	Php29,531	100	Php25,402	100	Php4,129	16

(1) *Includes DMPI's revenues for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table summarizes the revenue contribution of DMPI for the three months ended March 31, 2012 by service segment:

	Amount	%
	(in millions)	
Service Revenues:		
Cellular	Php4,204	87
Wireless broadband	487	10
	4,691	97
Non-Service Revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	130	3
Total Wireless Revenues	Php4,821	100

Service Revenues

Our wireless service revenues in the first quarter of 2012, which includes service revenues from DMPI of Php4,691 million, increased by Php3,781 million, or 15%, to Php28,913 million as compared with Php25,132 million in the same period in 2011, mainly as a result of higher revenues from our cellular and wireless broadband services. The increase in our cellular revenues was mainly due to the inclusion of DMPI's revenues for the first quarter of 2012, partially offset by the decline in Smart's revenues from domestic and international calls, as well as domestic outbound and inbound text messaging services as a result of increased utilization of unlimited offers, increasing patronage of social networking sites, and the NTC-mandated decrease in interconnection charges. 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 Php43.03 for the three months ended March 31, 2012 from Php43.78 for the three months ended March 31, 2011. 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 2012 were lower as compared with the same period in 2011. As a percentage of our total wireless revenues, service revenues amounted to 98% and 99% in the first quarter of 2012 and 2011, respectively.

Cellular Service

Our cellular service revenues in the first quarter of 2012, which includes revenues from DMPI of Php4,204 million, amounted to Php26,353 million, an increase of Php3,252 million, or 14%, from Php23,101 million in the same period in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in the first quarter of 2012 and 2011, respectively.

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

The following table shows the breakdown of our cellular service revenues for the three months ended March 31, 2012 and 2011:

			Increase	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
		(in millions)		
Cellular service revenues	Php26,353	Php23,101	Php3,252	14
By service type	*25,659*	*22,436*	*3,223*	*14*
Prepaid	21,706	20,446	1,260	6
Postpaid	3,953	1,990	1,963	99
By component	*25,659*	*22,436*	*3,223*	*14*
Voice	12,567	10,943	1,624	15
Data	13,092	11,493	1,599	*14*
Others[(3)]	*694*	*665*	*29*	*4*

(1) *Includes DMPI's revenues for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*
(3) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLDT Landline Plus, or PLP, services, a small number of leased line contracts, and revenues from Chikka and other Smart subsidiaries.*

The following table shows the breakdown of DMPI's cellular service revenues for the three months ended March 31, 2012:

Cellular service revenues (in millions)	Php4,204
By service type	*4,132*
Prepaid	2,428
Postpaid	1,704
By component	*4,132*
Voice	2,494
Data	1,638
Others	72

The following table shows our other key measures of our cellular business as at and for the three months ended March 31, 2012 and 2011:

	2012	2011	Increase (Decrease) Amount	%
Cellular subscriber base	66,109,953	46,656,685	19,453,268	42
Prepaid	64,072,883	46,226,125	17,846,758	39
Smart Prepaid	*26,853,620*	*25,735,090*	*1,118,530*	*4*
Talk 'N Text	*22,159,902*	*19,400,538*	*2,759,364*	*14*
Red Mobile	*899,749*	*1,090,497*	*(190,748)*	*(17)*
Sun Cellular[1]	*14,159,612*	*–*	*14,159,612*	*100*
Postpaid	2,037,070	430,560	1,606,510	373
Smart	*617,058*	*430,410*	*186,648*	*43*
Red Mobile[2]	*167*	*150*	*17*	*11*
Sun Cellular[1]	*1,419,845*	*–*	*1,419,845*	*100*
Systemwide traffic volumes (in millions)				
Calls (in minutes)[3]	11,934	8,668	3,266	38
Domestic	11,071	7,911	3,160	40
Inbound	*379*	*352*	*27*	*8*
Outbound	*10,692*	*7,559*	*3,133*	*41*
International	863	757	106	14
Inbound	*699*	*707*	*(8)*	*(1)*
Outbound	*164*	*50*	*114*	*228*
SMS/Data count (in hits)[4]	128,314	80,550	47,764	59
Text messages	126,546	80,133	*46,413*	*58*
Domestic	126,342	79,990	*46,352*	*58*
Bucket-Priced/Unlimited	115,987	73,402	42,585	58
Standard	10,355	6,588	*3,767*	*57*
International	204	143	*61*	*43*
Value-Added Services	1,756	409	1,347	329
Financial Services	12	8	4	50

(1) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*
(2) *Red Mobile postpaid was launched on March 17, 2011.*
(3) *Includes DMPI's minutes for the first quarter of 2012.*
(4) *Includes DMPI's SMS counts (except financial services) for the first quarter of 2012.*

Revenues generated from our prepaid cellular services amounted to Php21,706 million in the first quarter of 2012, an increase of Php1,260 million, or 6%, as compared with Php20,446 million in the same period in 2011. Prepaid cellular service revenues accounted for 85% and 91% of cellular voice and data revenues in the first quarter of 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php3,953 million in the first quarter of 2012, an increase of Php1,963 million, or 99%, as compared with Php1,990 million earned in the same period in 2011, and which accounted for 15% and 9% of cellular voice and data revenues in the first quarter of 2012 and 2011, respectively. The increase in revenues from our prepaid cellular services was primarily due to the inclusion of DMPI's revenues for the first quarter of 2012 and Smart's higher revenues from domestic bucket-priced/unlimited SMS, internet-based VAS and international inbound SMS, partially offset by a decline in Smart's revenues from domestic and international calls, and domestic standard SMS.

Revenues attributable to DMPI's prepaid and postpaid cellular services for the first quarter of 2012 amounted to Php2,428 million and Php1,704 million, and accounted for 59% and 41% of DMPI's cellular voice and data revenues, respectively.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php1,624 million, or 15%, to Php12,567 million in the first quarter of 2012 from Php10,943 million in the same period in 2011, primarily due to the inclusion of DMPI's revenues of Php2,494 million for the first quarter of 2012, partially offset by a decrease in Smart's domestic and international call revenues. Cellular voice services accounted for 48% and 47% of our cellular service revenues in the first quarter of 2012 and 2011, respectively.

The following table shows the breakdown of our cellular voice revenues for the three months ended March 31, 2012 and 2011:

			Increase (Decrease)	
	2012[1]	**2011**[2]	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php1,438	Php1,293	Php145	11
Outbound	7,056	5,504	1,552	28
	8,494	6,797	1,697	25
International				
Inbound	3,345	3,501	(156)	(4)
Outbound	728	645	83	13
	4,073	4,146	(73)	(2)
Total	Php12,567	Php10,943	Php1,624	15

(1) *Includes DMPI's revenues for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table shows the breakdown of DMPI's cellular voice revenues for the three months ended March 31, 2012:

	(in millions)
Voice services:	
Domestic	*Php2,293*
Inbound	323
Outbound	1,970
International	*201*
Inbound	11
Outbound	190
Total	Php2,494

Domestic voice service revenues increased by Php1,697 million, or 25%, to Php8,494 million in the first quarter of 2012 from Php6,797 million in the same period in 2011, primarily due to an increase in domestic outbound and inbound voice service revenues of Php1,552 million and Php145 million, respectively.

Revenues from domestic outbound voice service increased by Php1,552 million, or 28%, to Php7,056 million in the first quarter of 2012 from Php5,504 million in the same period in 2011 mainly due to the inclusion of DMPI's domestic outbound voice service revenues of Php1,970 million for the first quarter of 2012, partially offset by Smart's lower yield on standard calls and lower traffic volume of bucket calls. Domestic outbound call volume of 10,692 million minutes, which includes DMPI's domestic outbound call volume of 3,176 million minutes, in the first quarter of 2012, increased by 3,133 million minutes, or 41%, from 7,559 million minutes in the same period in 2011.

Revenues from our domestic inbound voice service increased by Php145 million, or 11%, to Php1,438 million in the first quarter of 2012 from Php1,293 million in the same period in 2011 as a result of the inclusion of DMPI's domestic inbound voice service revenues of Php323 million for the first quarter of 2012, partially offset by the decrease in Smart's domestic inbound voice revenues due to lower traffic from domestic fixed line and other mobile carriers. Domestic inbound call volumes of 379 million minutes, which includes DMPI's domestic inbound call volumes of 81 million minutes, in the first quarter of 2012, increased by 27 million minutes, or 8%, from 352 million minutes in the same period in 2011.

International voice service revenues decreased by Php73 million, or 2%, to Php4,073 million in the first quarter of 2012 from Php4,146 million in the same period in 2011, with a decline in international inbound voice service revenues by Php156 million, or 4%, to Php3,345 million in the first quarter of 2012 from Php3,501 million in the first quarter of 2011, partially offset by an increase in international outbound voice service revenues by Php83 million, or 13%, to Php728 million in the first quarter of 2012 from Php645 million in the same period in 2011. The decrease in international voice service revenues was primarily due to the unfavorable effect on Smart's dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.03 for the three months ended March 31, 2012 from Php43.78 for the three months ended March 31, 2011, Smart's lower international inbound voice traffic and inbound termination rates, partially offset by the inclusion of DMPI's revenues of Php201 million for the first quarter of 2012. International inbound and outbound calls totaled 863 million minutes, which includes DMPI's international inbound and outbound call volume aggregating 124 million minutes, in the first quarter of 2012, an increase of 106 million minutes, or 14%, from 757 million minutes in the same period in 2011.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php1,599 million, or 14% to Php13,092 million in the first quarter of 2012 from Php11,493 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues of Php1,638 million for the first quarter of 2012, partially offset by a decrease in Smart's text messaging revenues. Cellular data services accounted for 50% of our cellular service revenues in each of the first quarter of 2012 and 2011, respectively.

The following table shows the breakdown of our cellular data service revenues for the three months ended March 31, 2012 and 2011:

	2012[1]	2011[2]	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php10,958	Php9,825	Php1,133	12
Bucket-Priced/Unlimited	6,853	5,595	1,258	22
Standard	4,105	4,230	(125)	(3)
International	959	895	64	7
	11,917	10,720	1,197	11
Value-added services				
Internet-based[3]	688	336	352	105
Pasa Load/Give-a-load[4]	171	164	7	4
SMS-based[5]	184	149	35	23
MMS-based[6]	118	114	4	4
	1,161	763	398	52
Financial services	14	10	4	40
Total	Php13,092	Php11,493	Php1,599	14

[1] *Includes DMPI's revenues for the first quarter of 2012.*
[2] *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*
[3] *Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs.*
[4] *Includes revenues from Pasa Load and Dial*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.*
[5] *Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.*
[6] *Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.*

The following table shows the breakdown of DMPI's cellular data service revenues for the three months ended March 31, 2012:

	(in millions)
Text messaging	
Domestic	Php1,393
Bucket-Priced/Unlimited	911
Standard	482
International	76
	1,469
Value-added services	
Internet-based	115
SMS-based	51
MMS-based	1
Give-a-load	2
	169
Total	Php1,638

Text messaging-related services contributed revenues of Php11,917 million in the first quarter of 2012, an increase of Php1,197 million, or 11%, as compared with Php10,720 million in the same period in 2011, and accounted for 91% and 93% of our total cellular data service revenues in the first quarter of 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from the inclusion of DMPI's revenues of Php1,469 million in the first quarter of 2012, partially offset by lower text messaging revenues from Smart due to declining SMS yields. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php6,853 million in the first quarter of 2012, an increase of Php1,258 million, or 22%, as compared with Php5,595 million in the same period in 2011, primarily due to the inclusion of revenues from DMPI's bucket-priced/unlimited plans of Php911 million and an increase in Smart's revenues from bucket-priced/unlimited SMS offers. Bucket-priced/unlimited text messages of 115,987 million, which includes DMPI's bucket-priced/unlimited text messages of 10,721 million, in the first quarter of 2012, increased by 42,585 million, or 58%, from 73,402 million in the same period in 2011.

Standard text messaging revenues, which includes outbound standard SMS and domestic inbound SMS revenues, decreased by Php125 million, or 3%, to Php4,105 million in the first quarter of 2012 from Php4,230 million in the same period in 2011, primarily due to Smart's lower standard text messaging revenues on the back of increased usage of unlimited SMS, as well as the lower domestic inbound SMS revenues due to the NTC-mandated reduction in SMS interconnect charge, partially offset by the inclusion of DMPI's standard text messaging revenues of Php482 million in the first quarter of 2012. Standard text messages of 10,355 million, which includes DMPI's standard text messages of 2,498 million, in the first quarter of 2012, increased by 3,767 million, or 57%, from 6,588 million in the same period in 2011.

International text messaging revenues amounted to Php959 million in the first quarter of 2012, an increase of Php64 million, or 7%, from Php895 million in the same period in 2011 mainly due to the inclusion of DMPI's revenues and the growth in Smart's international inbound SMS traffic, partially offset by the unfavorable effect of the appreciation of the peso relative to the U.S. dollar on international inbound text messaging revenues and a lower international outbound SMS traffic.

VAS contributed revenues of Php1,161 million in the first quarter of 2012, an increase of Php398 million, or 52%, as compared with Php763 million in the same period in 2011, primarily due to an increase in revenues from Smart's internet-based VAS and the inclusion of DMPI's VAS revenues of Php169 million.

Subscriber Base, ARPU and Churn Rates

As at March 31, 2012, our cellular subscribers, totaled 66,109,953, an increase of 19,453,268, or 42%, over the cellular subscriber base of 46,656,685 as at March 31, 2011. Our cellular prepaid subscriber base grew by 17,846,758, or 39%, to 64,072,883 as at March 31, 2012 from 46,226,125 as at March 31, 2011, and our cellular postpaid subscriber base increased by 1,606,510, or 373%, to 2,037,070 as at March 31, 2012 from 430,560 as at March 31, 2011. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 14,159,612 and 1,419,845, respectively, as at March 31, 2012, and the increase in Smart and *Talk 'N Text* subscribers. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at March 31, 2012 and 2011, respectively.

Our net subscriber activations for the three months ended March 31, 2012 and 2011 were as follows:

	2012	2011	Increase (Decrease) Amount	%
Prepaid	2,280,091	1,011,692	1,268,399	125
Smart Prepaid	*280,483*	*441,647*	*(161,164)*	*(36)*
Talk 'N Text	*1,692,727*	*433,157*	*1,259,570*	*291*
Red Mobile	*(538,635)*	*136,888*	*(675,523)*	*(493)*
Sun Cellular[(1)]	*845,516*	*–*	*845,516*	*100*
Postpaid	133,233	8,985	124,248	1,383
Smart	*66,573*	*8,835*	*57,738*	*654*
Red Mobile[(2)]	*(96)*	*150*	*(246)*	*(164)*
Sun Cellular[(1)]	*66,756*	*–*	*66,756*	*100*
Total	2,413,324	1,020,677	1,392,647	136

(1) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*
(2) *Red Mobile postpaid was launched on March 17, 2011.*

Prepaid and postpaid subscribers reflected net activations of 2,280,091 and 133,233 subscribers, respectively, in the first quarter of 2012 as compared with net activations of 1,011,692 and 8,985 in the same period in 2011, respectively.

The following table summarizes our average monthly churn rates for the three months ended March 31, 2012 and 2011:

	2012	2011
	(in %)	
Prepaid		
Smart Prepaid	5.8	4.7
Talk 'N Text	5.2	5.2
Red Mobile	21.5	19.5
Sun Cellular[(1)]	9.3	–
Postpaid		
Smart	2.8	1.8
Red Mobile[(2)]	14.9	–
Sun Cellular[(1)]	0.9	–

(1) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*
(2) *Red Mobile postpaid was launched on March 17, 2011.*

For *Smart Prepaid* subscribers, the average monthly churn rate in the first quarter of 2012 and 2011 were 5.8% and 4.7%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.2% in the first quarter of 2012 and 2011. The average monthly churn rate for *Red Mobile* prepaid subscribers were 21.5% and 19.5% in the first quarter of 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers was 9.3% in the first quarter of 2012.

The average monthly churn rate for Smart's postpaid subscribers were 2.8% and 1.8% for the first quarter of 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile's* and *Sun Cellular's* postpaid subscribers were 14.9% and 0.9%, respectively, for the first quarter of 2012.

PLDT

The following table summarizes our average monthly cellular ARPUs for the three months ended March 31, 2012 and 2011:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2012	2011	Amount	%	2012	2011	Amount	%
Prepaid								
Smart Prepaid	Php178	Php205	(Php27)	(13)	Php155	Php180	(25)	(14)
Talk 'N Text	118	129	(11)	(9)	104	113	(9)	(8)
Red Mobile	46	32	14	44	40	28	12	43
Sun Cellular[3]	75	–	75	100	64	–	64	100
Postpaid								
Smart Postpaid	1,302	1,610	(308)	(19)	1,279	1,557	(278)	(18)
Red Mobile[4]	339	133	206	155	339	133	206	155
Sun Cellular[3]	414	–	414	100	411	–	411	100

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(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month. Net monthly ARPUs in 2011 have been restated to reflect the change in the presentation of our outbound revenues.*

(3) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*

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

Our average monthly prepaid and postpaid ARPUs per quarter in 2012 and 2011 were as follows:

	Prepaid								Postpaid					
	Smart Prepaid		Talk 'N Text		Red Mobile		Sun Cellular[1]		Smart		Red Mobile[2]		Sun Cellular	
	Gross[3]	Net[4]	Gross[3]	Net[4]	Gross[3]	Net[4]	Gross[3]	Net[4]	Gross[3]	Net[4]	Gross[3]	Net[4]	Gross[3]	Net[4]
2012														
First Quarter	178	155	118	104	46	40	75	64	1,302	1,279	339	339	414	411
2011														
First Quarter	205	180	129	113	32	28	–	–	1,610	1,557	133	133	–	–
Second Quarter	203	179	126	111	43	38	–	–	1,638	1,576	413	413	–	–
Third Quarter	188	166	117	103	39	33	–	–	1,494	1,430	431	431	–	–
Fourth Quarter	194	166	124	109	39	34	–	–	1,452	1,480	355	355	–	–

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(1) *Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.*

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

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

(3) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2011 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Note 2 – Summary of Significant Accounting Policies to the accompanying unaudited consolidated financial statements.*

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php581 million, or 37%, to Php2,164 million in the first quarter of 2012 from Php1,583 million in the same period in 2011, primarily due to the 50% growth in broadband subscriber base and as a result of the inclusion of DMPI's revenues for the first quarter of 2012 of Php487 million, partially offset by a decline in ARPU.

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,112,913 subscribers as at March 31, 2012, an increase of 705,694 subscribers, or 50%, as compared with 1,407,219 subscribers as at March 31, 2011, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 220,738 and 273,816, respectively, as at March 31, 2012, and increase in *SmartBro* subscribers. Our prepaid wireless broadband subscriber base increased by 415,934 subscribers, or 43%, to 1,389,123 subscribers as at March 31, 2012 from 973,189 subscribers as at March 31, 2011, while our postpaid wireless broadband subscriber base increased by 289,760 subscribers, or 67%, to 723,790 subscribers as at March 31, 2012 from 434,030 subscribers as at March 31, 2011.

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 also 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, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

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

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php52 million, or 12%, to Php396 million in the first quarter of 2012 from Php448 million in the same period in 2011, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS subscribers and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.03 for the three months ended March 31, 2012 from Php43.78 for the three months ended March 31, 2011 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php348 million, or 129%, to Php618 million in the first quarter of 2012 as compared with Php270 million in the same period in 2011, primarily due to the increase in the average retail price and quantity of Smart's cellular handsets/SIM-packs issued for activation, as well as the effect of the inclusion of DMPI's non-service revenues of Php130 million for the first quarter of 2012.

Expenses

Expenses associated with our wireless business amounted to Php19,650 million, which includes DMPI's expenses of Php4,919 million, in the first quarter of 2012, an increase of Php5,400 million, or 38%, from Php14,250 million in the same period in 2011. A significant portion of this increase was attributable to higher expenses related to cost of sales, depreciation and amortization, repairs and maintenance, interconnection costs, selling and promotions, rent, compensation and employee benefits, and taxes and licenses, partially offset by lower other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 67% and 56% in the first quarter of 2012 and 2011, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the three months ended March 31, 2012 and 2011 and the percentage of each expense item in relation to the total:

					Increase (Decrease)	
	2012[(1)]	**%**	**2011**[(2)]	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php4,111	21	Php3,374	24	Php737	22
Interconnection costs	2,917	15	2,364	17	553	23
Rent	2,419	12	1,984	14	435	22
Cost of sales	2,268	12	862	6	1,406	163
Repairs and maintenance	1,998	10	1,283	9	715	56
Compensation and employee benefits	1,894	10	1,499	10	395	26
Selling and promotions	1,387	7	895	6	492	55
Professional and other contracted services	882	4	707	5	175	25
Taxes and licenses	641	3	409	3	232	57
Asset impairment	356	2	167	1	189	113
Communication, training and travel	318	2	221	2	97	44
Insurance and security services	224	1	204	1	20	10
Amortization of intangible assets	27	–	27	–	–	–
Other expenses	208	1	254	2	(46)	(18)
Total	Php19,650	100	Php14,250	100	Php5,400	38

(1) *Includes DMPI's expenses for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the transfer of PCEV from Wireless to Others' business segment, as discussed in the "Overview" section.*

The following table summarizes the breakdown of DMPI's wireless-related expenses for the three months ended March 31, 2012 and the percentage of each expense item in relation to the total:

	Amount (in millions)	%
Depreciation and amortization	Php1,369	28
Repairs and maintenance	677	14
Cost of sales	659	13
Interconnection costs	641	13
Rent	403	8
Selling and promotions	378	8
Compensation and employee benefits	361	7
Taxes and licenses	149	3
Communication, training and travel	92	2
Professional and other contracted services	85	2
Asset impairment	55	1
Insurance and security services	14	–
Other expenses	36	1
Total	Php4,919	100

Depreciation and amortization charges increased by Php737 million, or 22%, to Php4,111 million primarily due to the inclusion of DMPI's depreciation and amortization expenses of Php1,369 million for the first quarter of 2012, partially offset by lower depreciation charges on cellular and broadband network facilities of Smart.

Interconnection costs increased by Php553 million, or 23%, to Php2,917 million primarily due to the inclusion of DMPI's interconnection costs of Php641 million for the first quarter of 2012, partially offset by a decrease in interconnection charges on domestic calls and international SMS and an increase in inter-operator rebates.

Rent expenses increased by Php435 million, or 22%, to Php2,419 million primarily due to the inclusion of DMPI's rent expenses of Php403 million for the first quarter of 2012, increase in cell site, domestic fiber optic network, or DFON, and office rental charges, partially offset by a decrease in satellite and circuit rental charges. In the three months ended March 31, 2012, we had 10,495 cell sites, 12,756 cellular/mobile broadband base stations and 2,797 fixed wireless broadband-enabled base stations, which includes DMPI's 4,420 cell sites and 2,213 cellular/mobile broadband base stations, as compared with 6,037 cell sites, 10,376 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations in the same period in 2011.

Cost of sales increased by Php1,406 million, or 163%, to Php2,268 million primarily due to the inclusion of DMPI's cost of sales of Php659 million for the first quarter of 2012 and higher cellular activation costs, partly offset by lower broadband retention costs, as well as lower quantity and average cost of broadband modems sold.

Repairs and maintenance expenses increased by Php715 million, or 56%, to Php1,998 million mainly due to the inclusion of DMPI's repairs and maintenance expense of Php677 million for the first quarter of 2012, higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and software maintenance, partly offset by lower maintenance charges for cellular and broadband network facilities.

Compensation and employee benefits expenses increased by Php395 million, or 26%, to Php1,894 million primarily due to the inclusion of DMPI's compensation and employee benefit expenses of Php361 million for the first quarter of 2012, higher salaries and employee benefits, and LTIP costs, partially offset by lower MRP costs and provision for pension benefits of Smart. Employee headcount increased to 8,063 as at March 31, 2012 as compared with 5,053 as at March 31, 2011, primarily due to the inclusion of DMPI's headcount of 2,871 as at March 31, 2012.

Selling and promotion expenses increased by Php492 million, or 55%, to Php1,387 million primarily due to the inclusion of DMPI's selling and promotions expense of Php378 million for the first quarter of 2012 and higher spending on commissions, advertising and promotional campaigns.

Professional and other contracted service fees increased by Php175 million, or 25%, to Php882 million primarily due to the increase in consultancy, management, market research, customer relationship management service, outsourced service, contracted service and corporate membership fees, and the inclusion of DMPI's professional and other contracted service fees of Php85 million for the first quarter of 2012, partly offset by lower technical, legal and other professional service fees.

Taxes and licenses increased by Php232 million, or 57%, to Php641 million primarily due to higher business-related taxes and license fees and the inclusion of DMPI's taxes and licenses of Php149 million for the first quarter of 2012.

Asset impairment increased by Php189 million, or 113%, to Php356 million primarily due to higher provision for inventory obsolescence and the inclusion of DMPI's provision for uncollectible receivables of Php55 million for the first quarter of 2012.

Communication, training and travel expenses increased by Php97 million, or 44%, to Php318 million primarily due to the inclusion of DMPI's communication, training and travel expenses of Php92 million for the first quarter of 2012 and higher training, freight and hauling, and fuel consumption for vehicles, partially offset by lower courier and travel expenses.

Insurance and security services increased by Php20 million, or 10%, to Php224 million primarily due to the inclusion of DMPI's insurance and security expenses of Php14 million for the first quarter of 2012, and Smart's higher site security and insurance expenses.

Other expenses decreased by Php46 million, or 18%, to Php208 million primarily due to lower various business and operational-related expenses, partly offset by the inclusion of DMPI's other operational expenses of Php36 million for the first quarter of 2012.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the three months ended March 31, 2012 and 2011:

			Change	
	2012	**2011**[1]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains – net	Php963	Php199	Php764	Php384
Interest income	195	179	16	9
Equity share in net losses of associates	(2)	(8)	6	(75)
Loss on derivative financial instruments – net	(23)	–	(23)	(100)
Financing costs – net	(701)	(667)	(34)	5
Others	492	85	407	479
Total	Php924	(Php212)	Php1,136	536

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(1) *The 2011 other income and expenses have been restated to reflect the transfer of PCEV from Wireless to Others' business segment, as discussed in the "Overview" section.*

Our wireless business' other income amounted to Php924 million, which includes other income from DMPI amounting to Php711 million, in the first quarter of 2012, an increase of Php1,136 million as against other expenses of Php212 million in the same period in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains of Php764 million in the first quarter of

2012 on account of revaluation of foreign currency-denominated assets and liabilities due to the appreciation of the Philippine peso to the U.S. dollar and the inclusion of gains on revaluation of dollar-denominated net liabilities of DMPI for the first quarter of 2012; (ii) an increase in other income by Php407 million mainly due to higher outsourcing income and recovery of prior year's provision, partially offset by lower rental, consultancy and other miscellaneous income; (iii) an increase in interest income by Php16 million mainly due to a higher average level of peso and dollar short-term investments and a higher average interest rate in the first quarter of 2012; (iv) decrease in equity share in net losses of associates by Php6 million; (v) net loss on derivative financial instruments – net of Php23 million in the first quarter of 2012; and (vi) higher net financing costs by Php34 million primarily due to the inclusion of DMPI's financing costs for the first quarter of 2012, higher accretion on financial liabilities and financing charges, partly offset by the increase in capitalized interest, lower interest on loans and other related items by Smart and lower foreign exchange rates.

Provision for Income Tax

Provision for income tax increased by Php452 million, or 16%, to Php3,224 million in the first quarter of 2012 from Php2,772 million in the same period in 2011 primarily due to higher taxable income. The effective tax rate for our wireless business was 30% and 25% in the first quarter of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php587 million, or 7%, to Php7,581 million, including a net income from DMPI of Php458 million, in the first quarter of 2012, from Php8,168 million recorded in the same period in 2011.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php534 million, or 4%, to Php14,019 million in the first quarter of 2012, which includes EBITDA from DMPI of Php1,271 million, from Php14,553 million in the same period in 2011.

Core Income

Our wireless business' core income decreased by Php1,211 million, or 15%, to Php6,925 million in the first quarter of 2012, which includes core income from DMPI amounting to Php17 million for the first quarter of 2012, from Php8,136 million in the same period in 2011 on account of an increase in wireless-related expenses and higher provision for income tax, partially offset by higher wireless revenues and a decrease in other expenses.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php15,791 million, including revenues from Digitel of Php1,046 million, in the first quarter of 2012, an increase of Php1,144 million, or 8%, from Php14,647 million in the same period in 2011.

The following table summarizes our total revenues from our fixed line business for the three months ended March 31, 2012 and 2011 by service segment:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php4,008	25	Php3,732	26	Php276	7
International long distance	2,991	19	2,734	19	257	9
National long distance	1,354	9	1,440	10	(86)	(6)
Data and other network	6,620	42	5,631	38	989	18
Miscellaneous	639	4	789	5	(150)	(19)
	15,612	99	14,326	98	1,286	9
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	179	1	321	2	(142)	(44)
Total Fixed Line Revenues	Php15,791	100	Php14,647	100	Php1,144	8

(1) Includes Digitel's revenues for the first quarter of 2012.
(2) The 2011 revenues have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business, as discussed in the "Overview" section.

The following table summarizes the revenue contribution of Digitel to our fixed line business for the three months ended March 31, 2012 by service segment:

	Amount	%
	(in millions)	
Fixed Line Services:		
Service Revenues:		
Local exchange	Php262	25
International long distance	353	34
National long distance	98	9
Data and other network	333	32
Total Fixed Line Revenues	Php1,046	100

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,286 million, or 9%, to Php15,612 million in the first quarter of 2012, which includes service revenues from Digitel amounting to Php1,046 million for the first quarter of 2012, from Php14,326 million in the same period in 2011 due to an increase in the revenue of our data and other network, local exchange, and international long distance services, partially offset by a decrease in national long distance and miscellaneous services.

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, 2012 and 2011:

	2012[1]	2011[2]	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php4,008	Php3,732	Php276	7
Number of fixed line subscribers	2,151,136	1,842,004	309,132	17
Postpaid	2,025,093	1,730,410	294,683	17
Prepaid	126,043	111,594	14,449	13
Number of fixed line employees	9,064	7,407	1,657	22
Number of fixed line subscribers per employee	237	249	(12)	(5)

(1) Includes Digitel's revenues, subscriber base and employee headcount as at and for the first quarter of 2012.
(2) The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.

The following table summarizes the key measures of Digitel's local exchange service business as at March 31, 2012 and for the first quarter of 2012:

Total local exchange service revenues (in millions)	Php262
Number of fixed line subscribers	292,504
Postpaid	244,953
Prepaid	47,551
Number of fixed line employees	1,549
Number of fixed line subscribers per employee	189

Revenues from our local exchange service increased by Php276 million, or 7%, to Php4,008 million in the first quarter of 2012 from Php3,732 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues for the first quarter of 2012 and the increase in postpaid wired and *PLP* lines, partially offset by a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of the first quarter of 2012 and 2011.

PLP wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. Similar to our *PLP* wireless service, Digitel's *SunTel* wireless landline offers unlimited landline to landline calls with the convenience of limited mobility.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the three months ended March 31, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011[(2)]**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php2,991	Php2,734	Php257	9
Inbound	2,739	2,479	260	10
Outbound	252	255	(3)	(1)
International call volumes (in million minutes, except call ratio)	538	454	84	19
Inbound	494	411	83	20
Outbound	44	43	1	2
Inbound-outbound call ratio	11.2:1	9.6:1	–	–

(1) *Includes Digitel's revenues and call volumes for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

The following table summarizes the key measures of Digitel's international long distance service business as at March 31, 2012 and for the first quarter of 2012:

Total international long distance service revenues (in millions)	Php353
Inbound	341
Outbound	12
International call volumes (in million minutes, except call ratio)	87
Inbound	84
Outbound	3
Inbound-outbound call ratio	28:1

Our total international long distance service revenues increased by Php257 million, or 9%, to Php2,991 million in the first quarter of 2012, which includes revenues from Digitel amounting to Php353 million, from Php2,734 million in the same period in 2011, primarily due to the inclusion of

Digitel's international long distance service revenues in the first quarter of 2012, partially offset by the decrease in the average settlement and collection rate and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.03 for the three months ended March 31, 2012 from Php43.78 for the three months ended March 31, 2011. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% in each of the first quarter of 2012 and 2011.

Our revenues from inbound international long distance service increased by Php260 million, or 10%, to Php2,739 million in the first quarter of 2012 from Php2,479 million in the same period in 2011 due to an increase in inbound call volumes, as well as the inclusion of Digitel's inbound international long distance service revenues of Php341 million for the first quarter of 2012, partially offset by the decrease in the average settlement rate and the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar.

Our revenues from outbound international long distance service decreased by Php3 million, or 1%, to Php252 million in the first quarter of 2012 from Php255 million in the same period in 2011, primarily due to the decline in average collection rate in dollar terms and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.03 for the three months ended March 31, 2012 from Php43.78 for the three months ended March 31, 2011, resulting in a decrease in the average billing rates to Php43.31 in the first quarter of 2012 from Php43.94 in the same period in 2011, partially offset by the inclusion of Digitel's revenues from outbound international long distance service of Php12 million.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the three months ended March 31, 2012 and 2011:

			Decrease	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
Total national long distance service revenues (in millions)	Php1,354	Php1,440	(Php86)	(6)
National long distance call volumes (in million minutes)	248	283	(35)	(12)

(1) *Includes Digitel's revenues of Php98 million and call volumes of 12 million minutes for the first quarter of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section.*

Our national long distance service revenues decreased by Php86 million, or 6%, to Php1,354 million in the first quarter of 2012 from Php1,440 million in the same period in 2011, primarily due to a decrease in call volumes, partially offset by the inclusion of Digitel's national long distance service revenues for the first quarter of 2012 and an increase in the average revenue per minute of our national long distance services due to the cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% and 10% in the first quarter of 2012 and 2011, respectively.

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, 2012 and 2011:

	2012[1]	2011[2]	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php6,620	Php5,631	Php989	18
Domestic	4,675	3,994	681	17
Broadband	*2,870*	*2,329*	*541*	*23*
DSL	2,814	2,264	550	24
WeRoam	56	65	(9)	(14)
Leased Lines and Others	*1,805*	*1,665*	*140*	*8*
International				
Leased Lines and Others	*1,658*	*1,377*	*281*	*20*
Vitro™ Data Center	287	260	27	10
Subscriber base				
Broadband	*886,678*	*693,524*	*193,154*	*28*
DSL	869,567	671,588	197,979	29
WeRoam	17,111	21,936	(4,825)	(22)
SWUP	*20,742*	*16,743*	*3,999*	*24*

(1) Includes Digitel's revenues and subscriber base as at and for the three months ended March 31, 2012.
(2) The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the inclusion of the ICT business group in our fixed line business, as discussed in the "Overview" section.

The following table shows Digitel's contribution to our data and other network service revenues and subscriber base as at and for the three months ended March 31, 2012:

Data and other network service revenues (in millions)	Php333
Domestic	326
Broadband – Sun DSL	*203*
Leased Lines and Others	*123*
International	
Leased Lines and Others	*7*
DSL Subscriber base	107,232

Our data and other network services posted revenues of Php6,620 million, which includes revenues from Digitel of Php333 million, in the first quarter of 2012, an increase of Php989 million, or 18%, from Php5,631 million in the same period in 2011, primarily due to higher revenues from *PLDT DSL*, an increase in international data revenues primarily due to higher revenues from i-Gate, ISDN and Fibernet, and the inclusion of Digitel's data and other network service revenues for the first quarter of 2012, and an increase in domestic leased line revenues resulting from the higher revenue contribution of internet protocol-virtual private network, or IP-VPN, and Metro Ethernet. The percentage contribution of this service segment to our fixed line service revenues accounted for 42% and 39% in the first quarter of 2012 and 2011, respectively.

Domestic

Domestic data services contributed Php4,675 million in the first quarter of 2012, an increase of Php681 million, or 17%, as compared with Php3,994 million in the same period in 2011 mainly due to higher DSL revenues and the inclusion of Digitel's revenues of Php326 million for the first quarter of 2012, higher IP-VPN and *Shops.Work Unplugged*, or *SWUP*, subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services accounted for 71% in each of the first quarter of 2012 and 2011.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies).

Broadband data revenues amounted to Php2,870 million, including Digitel's broadband data revenues of Php203 million, in the first quarter of 2012, an increase of Php541 million, or 23%, from Php2,329 million in the same period in 2011, primarily due to the higher revenue contribution of DSL which contributed revenues of Php2,814 million in the first quarter of 2012 from Php2,264 million in the same period in 2011 as a result of the increase in the number of subscribers by 29% to 869,567 subscribers, including Digitel's DSL subscriber base of 107,232, as at March 31, 2012, from 671,588 subscribers in the same period in 2011. DSL revenues accounted for 43% and 40% of total data and other network service revenues in the first quarter of 2012 and 2011, respectively.

WeRoam revenues amounted to Php56 million in the first quarter of 2012, a decrease of Php9 million, or 14%, from Php65 million in the same period in 2011 as a result of a decrease in subscriber base by 22% to 17,111 subscribers in the first quarter of 2012 from 21,936 subscribers in the same period in 2011.

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, 2012, *SWUP* has a total subscriber base of 20,742 up by 24% from 16,743 subscribers in the same period in 2011. Leased lines and other data revenues amounted to Php1,805 million in the first quarter of 2012, an increase of Php140 million, or 8%, from Php1,665 million in the same period in 2011, primarily due to the inclusion of Digitel's leased line data revenues of Php123 million for the first quarter of 2012, and higher revenues from IP-VPN, Metro Ethernet and *SWUP*, partially offset by lower Diginet revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 27% and 30% in the first quarter of 2012 and 2011, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php281 million, or 20%, to Php1,658 million in the first quarter of 2012 from Php1,377 million in the same period in 2011, primarily resulting from the growth in international managed data services, higher i-Gate, ISDN and Fibernet revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php7 million for the first quarter of 2012, partially offset by a decrease in revenues from 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 25% and 24% in the first quarter of 2012 and 2011, respectively.

Vitro™ Data Center

Vitro™ data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php27 million, or 10%, to Php287 million in the first quarter of 2012 from Php260 million in the same period in 2011 mainly due to higher co-location and managed services.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues decreased by Php150 million, or 19%, to Php639 million in the first quarter of 2012 from Php789 million in the same period in 2011 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of ePLDT's 75% interest in Digital Paradise on April 1, 2011 and 57.51% interest in Level Up! on July 11, 2011, as well as lower rental fees, partially offset by the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), higher facilities management fees and directory advertising, and the revenue contribution of PGNL, the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, and distributes these media content via syndication and via its international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 4% and 6% in the first quarter of 2012 and 2011, respectively.

Non-service Revenues

Non-service revenues decreased by Php142 million, or 44%, to Php179 million in the first quarter of 2012 from Php321 million in the same period in 2011, primarily due to the lower sale of several managed PABX and *OnCall* solution, *PLP* units, as well as lower computer-bundled sales, partially offset by the sale of *Telpad* units.

Expenses

Expenses related to our fixed line business totaled Php13,172 million, which includes expenses from Digitel amounting to Php797 million, in the first quarter of 2012, an increase of Php1,429 million, or 12%, as compared with Php11,743 million in the same period in 2011. The increase was primarily due to higher expenses related to professional and other contracted services, asset impairment, compensation and employee benefits, repairs and maintenance, taxes and licenses, depreciation and amortization, and rent, partly offset by lower expenses related to cost of sales, amortization of intangible assets and interconnection costs. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 83% and 80% in the first quarter of 2012 and 2011, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the three months ended March 31, 2012 and 2011 and the percentage of each expense item to the total:

	2012[(1)]	%	2011[(2)]	%	Increase (Decrease) Amount	%
	(in millions)					
Depreciation and amortization	Php3,239	25	Php3,128	27	Php111	4
Compensation and employee benefits	2,827	21	2,606	22	221	8
Interconnection costs	2,102	16	2,106	18	(4)	–
Repairs and maintenance	1,316	10	1,123	10	193	17
Professional and other contracted services	1,152	9	843	7	309	37
Rent	777	6	684	6	93	14
Cost of sales	340	3	367	3	(27)	(7)
Taxes and licenses	330	2	207	2	123	59
Selling and promotions	272	2	252	2	20	8
Asset impairment	265	2	13	–	252	1,938
Communication, training and travel	222	2	152	1	70	46
Insurance and security services	170	1	114	1	56	49
Amortization of intangible assets	–	–	11	–	(11)	(100)
Other expenses	160	1	137	1	23	17
Total	Php13,172	100	Php11,743	100	Php1,429	12

(1) Includes Digitel's expenses for the first quarter of 2012.
(2) The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed in the "Financial Highlights and Key Performance Indicators" section and the inclusion of the ICT business group in our fixed line business, as discussed in the "Overview" section.

The following table summarizes the breakdown of Digitel's fixed line-related expenses for the three months ended March 31, 2012 and the percentage of each expense item to the total:

	Amount	%
	(in millions)	
Repairs and maintenance	Php150	19
Depreciation and amortization	133	17
Compensation and employee benefits	112	14
Interconnection costs	99	12
Rent	64	8
Cost of Sales	63	8
Professional and other contracted services	49	6
Selling and promotions	31	4
Taxes and licenses	28	4
Communication, training and travel	26	3
Asset impairment	16	2
Insurance and security services	14	2
Other expenses	12	1
Total	Php797	100

Depreciation and amortization charges increased by Php111 million, or 4%, to Php3,239 million due to the inclusion of Digitel's depreciation and amortization expenses of Php133 million for the first quarter of 2012, partially offset by a lower depreciable asset base.

Compensation and employee benefits expenses increased by Php221 million, or 8%, to Php2,827 million primarily due to higher salaries and employee benefits, LTIP cost and provision for pension costs and the effect of the inclusion of Digitel's compensation and employee benefits expenses of Php112 million for the first quarter of 2012, partially offset by lower MRP costs. Employee headcount increased to 11,706 in the first quarter of 2012 as compared with 9,558 in the same period in 2011 mainly due to inclusion of Digitel's headcount of 1,549 and increase in the number of employee headcount by iPlus.

Interconnection costs decreased by Php4 million to Php2,102 million primarily due to lower settlement costs for data and other network services, particularly Fibernet and Infonet, and lower interconnection costs for domestic sent paid calls that terminated to other domestic carriers, partially offset by the inclusion of Digitel's interconnection costs of Php99 million.

Repairs and maintenance expenses increased by Php193 million, or 17%, to Php1,316 million primarily due to the inclusion of Digitel's repairs and maintenance expenses of Php150 million for the first quarter of 2012, higher maintenance costs of buildings, IT hardware and software, central office/telecom equipment, and site fuel consumption cost, partially offset by lower office electricity charges.

Professional and other contracted service expenses increased by Php309 million, or 37%, to Php1,152 million primarily due to higher consultancy and contracted services, customer relationship management service fees, and the effect of the inclusion of Digitel's professional and other contracted fees of Php49 million for the first quarter of 2012, partially offset by lower legal fees and outsource cost.

Rent expenses increased by Php93 million, or 14%, to Php777 million due to the effect of the inclusion of Digitel's rent expenses of Php64 million for the first quarter of 2012, as well as higher international leased circuits, site and pole rental charges, partially offset by a decrease in domestic leased circuits and office building rental charges.

Cost of sales decreased by Php27 million, or 7%, to Php340 million primarily due to lower sales of several managed PABX and *OnCall* solutions, *PLP* units, as well as lower computer-bundled sales in relation to our DSL promotions, partially offset by the inclusion of Digitel's cost of sales of Php63 million.

Taxes and licenses increased by Php123 million, or 59%, to Php330 million as a result of higher business-related taxes and the effect of the inclusion of Digitel's taxes and licenses of Php28 million for the first quarter of 2012.

Selling and promotion expenses increased by Php20 million, or 8%, to Php272 million primarily due to the effect of the inclusion of Digitel's selling and promotions expenses of Php31 million for the first quarter of 2012, partially offset by lower spending on advertising and promotions, and commission expenses.

Asset impairment increased by Php252 million to Php265 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables of Php16 million for the first quarter of 2012.

Communication, training and travel expenses increased by Php70 million, or 46%, to Php222 million mainly due to higher fuel consumption, local travel expenses, and mailing and courier charges, and the effect of the inclusion of Digitel's communication, training and travel expenses of Php26 million for the first quarter of 2012, partially offset by the decrease in foreign training and travel expenses.

Insurance and security services increased by Php56 million, or 49%, to Php170 million primarily due to higher insurance and bond premiums, security services and the effect of the inclusion of Digitel's insurance and security expenses of Php14 million for the first quarter of 2012.

Amortization of intangible assets amounted to Php11 million in the first quarter of 2011 relating to the amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in 2011.

Other expenses increased by Php23 million, or 17%, to Php160 million primarily due to higher various business and operational-related expenses and the inclusion of Digitel's other expenses of Php12 million.

Other Income (Expenses)

The following table summarizes the breakdown of our total fixed line-related other income (expenses) for the three months ended March 31, 2012 and 2011:

			Change	
	2012	**2011**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php306	Php118	Php188	159
Foreign exchange gains – net	277	127	150	118
Equity share in net earnings of associates	63	61	2	3
Gains (losses) on derivative financial instruments – net	(111)	422	(533)	(126)
Financing costs – net	(1,128)	(847)	(281)	33
Others	220	249	(29)	(12)
Total	(Php373)	Php130	(Php503)	(387)

Our fixed line business' other expenses amounted to Php373 million in the first quarter of 2012, a change of Php503 million, or 387%, as against other income of Php130 million in the same period in 2011. The decrease was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php111 million in the first quarter of 2012 as against net gains on derivative financial instruments of Php422 million in the same period in 2011 due to the effect of narrower dollar and peso interest rate differentials and higher level of appreciation of the Philippine peso to the U.S. dollar, partially offset a decrease in hedge costs; (ii) an increase in net financing costs by Php281 million due to higher interest expense on loans and related items and the effect of the inclusion of Digitel's financing costs in the first quarter of 2012; (iii) a decrease in other income by Php29 million mainly due to lower pension benefit income recognized by PLDT, partially offset by the gain on disposal of fixed assets; (iv) increase in equity share in net earnings of associates and joint ventures by Php2 million mainly due to the share in net earnings of Philweb Corporation, or Philweb; (v) increase in net foreign exchange gains by Php150 million on account of foreign exchange revaluation of foreign currency-denominated assets and liabilities due to the effect of the higher appreciation of the Philippine peso to the U.S. dollar; and (vi) an increase in interest income by Php188 million due to a higher average level of investments and higher average interest rates, partially offset by the impact of the appreciation of the Philippine peso on dollar placements and shorter average tenor of placements.

Provision for Income Tax

Provision for income tax, which includes Digitel's provision of Php5 million, amounted to Php477 million in the first quarter of 2012, a decrease of Php369 million, or 44%, as compared with Php846 million in the same period in 2011, primarily due to lower taxable income. The effective tax rate of our fixed line business were 21% and 28% in the first quarter of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php1,769 million in the first quarter of 2012, including net income from Digitel amounting to Php2,231 million decreased by Php419 million, or 19%, as compared with Php2,188 million in the same period in 2011.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php185 million, or 3%, to Php5,858 million in the first quarter of 2012, which includes EBITDA from Digitel of Php382 million, from Php6,043 million in the same period in 2011.

Core Income

Our fixed line business' core income decreased by Php136 million, or 8%, to Php1,598 million in the first quarter of 2012, which includes core income from Digitel of Php91 million, from Php1,734 million in the same period in 2011, primarily as a result of an increase in fixed line expenses and an increase in other expenses, partially offset by an increase in fixed line revenues and a lower provision for income tax.

Business Process Outsourcing

Revenues

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

Our BPO business generated revenues of Php2,415 million in the first quarter of 2012, an increase of Php405 million, or 20%, as compared with Php2,010 million in the same period in 2011. This increase was primarily due to higher revenue contributions from our knowledge processing solutions and customer relationship management businesses.

The following table summarizes our total revenues from our BPO business for the three months ended March 31, 2012 and 2011 by service segment:

					Increase	
	2012	%	2011[(1)]	%	Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php1,638	68	Php1,340	67	Php298	22
Customer relationship management	777	32	670	33	107	16
Total BPO Revenues	Php2,415	100	Php2,010	100	Php405	20

(1) *The 2011 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments, as discussed in the "Overview" section.*

Service Revenues

Service revenues generated by our BPO business amounted to Php2,415 million in the first quarter of 2012, an increase of Php405 million, or 20%, as compared with Php2,010 million in the same period in 2011, primarily as a result of the continued growth in our knowledge processing solutions, and customer relationship management businesses.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php1,638 million in first quarter of 2012, an increase of Php298 million, or 22%, from Php1,340 million in the same period in 2011.

Dollar-denominated revenues increased by 11% mainly due to a higher content services, inclusion of Laserwords Private Ltd., or Laserwords, in the consolidation effective November 1, 2011, partially offset by the sale of our medical transcription business on September 26, 2011, lower medical billings and the appreciation of the Philippine peso to the U.S. dollar by approximately 1%. Knowledge processing solutions business revenues accounted for 68% and 67% of total revenues of our BPO business in the first quarter of 2012 and 2011, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In the first quarter of 2012, SPi CRM changed its functional currency from Philippine Peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php107 million, or 16%, to Php777 million in first quarter of 2012 from Php670 million in the same period in 2011, primarily due to higher domestic sales by 10%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar and lower revenues from Infocom due to transfer of part of its services to PLDT. In total, we own and operate 5,956 seats with an average of 3,320 customer service representatives, or CSRs, in first quarter of 2012, as compared with 5,945 seats with an average of 3,409 CSRs in the same period in 2011. SPi CRM has six customer relationship management sites as at March 31, 2012 and 2011. Customer relationship management business revenues accounted for 32% and 33% of total revenues of our BPO business in first quarter of 2012 and 2011, respectively.

Expenses

Expenses associated with our BPO business totaled Php2,069 million in the first quarter of 2012, an increase of Php226 million, or 12%, as compared with Php1,843 million in the same period in 2011, primarily due to higher expenses related to compensation and employee benefits, professional and other contracted services, depreciation and amortization and taxes and licenses, partially offset by lower expenses related to asset impairment and rent. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 86% and 92% in the first quarter of 2012 and 2011, respectively.

The following table shows the breakdown of our total BPO-related expenses for the three months ended March 31, 2012 and 2011 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2012	**%**	**2011**[(1)]	**%**	**Amount**	**%**
			(in millions)			
Compensation and employee benefits	Php1,372	66	Php1,241	67	Php131	11
Professional and other contracted services	139	7	108	6	31	29
Depreciation and amortization	120	6	101	5	19	19
Rent	110	5	113	6	(3)	(3)
Repairs and maintenance	100	5	90	5	10	11
Communication, training and travel	89	4	83	5	6	7
Amortization of intangible assets	37	2	37	2	–	–
Taxes and licenses	30	1	11	1	19	173
Selling and promotions	20	1	8	–	12	150
Insurance and security services	15	1	15	1	–	–
Asset impairment	–	–	1	–	(1)	(100)
Other expenses	37	2	35	2	2	6
Total	Php2,069	100	Php1,843	100	Php226	12

(1) *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Compensation and employee benefits increased by Php131 million, or 11%, to Php1,372 million mainly due to higher salaries and benefits, LTIP and provision for pension costs, partially offset by a decline in MRP costs. BPO employee headcount increased by 784, or 5%, to 15,636 in the first quarter of 2012 as compared with 14,852 in the same period in 2011.

Professional and other contracted services increased by Php31 million, or 29%, to Php139 million primarily due to higher contracted service and consultancy fees, as well as professional fees for services rendered on the purchase of Laserwords.

Depreciation and amortization increased by Php19 million, or 19%, to Php120 million primarily due to higher depreciable asset base.

Rent expenses decreased by Php3 million, or 3%, to Php110 million primarily due to lower office building and domestic leased circuit rental charges.

Repairs and maintenance expenses increased by Php10 million, or 11%, to Php100 million primarily due to higher IT software and hardware repairs and maintenance costs, partially offset by decrease in repairs and maintenance costs of site facilities and buildings particularly from our customer relationship management business, as well as a decrease in site electricity charges.

Communication, training and travel expenses increased by Php6 million, or 7%, to Php89 million primarily due to higher travel expenses, communication, and mailing and courier charges, partially offset by lower local training expenses and fuel consumption costs.

Taxes and licenses increased by Php19 million, or 173% to Php30 million due to higher business-related taxes in the first quarter of 2012.

Selling and promotions expenses increased by Php12 million, or 150%, to Php20 million primarily due to higher spending on advertising and promotions.

Asset impairment of Php1 million in 2011 pertains to knowledge processing solutions' asset impairment of unutilized business tax benefits.

Other expenses increased by Php2 million, or 6%, to Php37 million mainly due to higher various business operational-related costs.

Other Income (Expenses)

The following table summarizes the breakdown of our total BPO-related other income for the three months ended March 31, 2012 and 2011:

			Change	
	2012	**2011[1]**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php39	Php–	Php39	100
Interest income	3	4	(1)	(25)
Foreign exchange losses – net	(4)	(6)	2	(33)
Financing costs	(6)	(16)	10	(63)
Others	4	17	(13)	(76)
Total	Php36	(Php1)	Php37	3,700

[1] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Our BPO business' other income amounted to Php36 million in the first quarter of 2012, an increase of Php37 million as against other expense of Php1 million in the same period in 2011, primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php39 million in the first quarter of 2012 due to mark-to-market gain from forward foreign exchange contracts; (ii) a decrease in financing costs by Php10 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (iii) decrease in net foreign exchange losses by Php2 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the higher appreciation of the Philippine peso to the U.S. dollar in the first quarter of 2012; (iv) a decrease in interest income by Php1 million due to lower interest earned; and (v) a decrease in other income by Php13 million mainly due to lower de-recognition of liabilities, partially offset by a gain on sale of SPi's medical transcription business.

Provision for Income Tax

Provision for income tax amounted to Php90 million, an increase of Php81 million, in the first quarter of 2012 from Php9 million in the same period in 2011, primarily due to higher taxable income in the first quarter of 2012, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords for the first quarter of 2012.

Net Income

As a result of the foregoing, our BPO business registered a net income of Php292 million, an increase of Php135 million, or 86%, in the first quarter of 2012 from Php157 million in the same period in 2011.

EBITDA

As a result of the foregoing, our BPO business' EBITDA increased by Php198 million, or 65%, to Php503 million in the first quarter of 2012 from Php305 million in the same period in 2011.

Core Income

Our BPO business' core income amounted to Php268 million in the first quarter of 2012, an increase of Php107 million, or 66%, as compared with Php161 million in the same period in 2011 mainly as a result of increases in BPO revenues, partially offset by an increase in BPO-related expenses and provision for income tax.

Others

Expenses

Expenses associated with our other business totaled Php5 million in the first quarter of 2012, an increase of Php1 million, or 25%, as compared with Php4 million in the same period in 2011, primarily due to PCEV's higher other operating expenses.

Other Income

The following table summarizes the breakdown of other income for other services for the three months ended March 31, 2012 and 2011:

	2012	2011[1]	Change Amount	Change %
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php213	Php139	Php74	53
Interest income	7	20	(13)	(65)
Others	218	63	155	246
Total	Php438	Php222	Php216	97

[1] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments, as discussed in the "Overview" section.*

Other income increased by Php216 million, or 97%, to Php438 million in the first quarter of 2012 from Php222 million in the same period in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php155 million due to preferred dividends from Beacon; (ii) an increase in equity share in net earnings of associates by Php74 million mainly due to the increase in PCEV's indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; and (iii) a decrease in interest income by Php13 million as a result of lower average level of temporary cash investments by our PCEV business.

For the three months ended March 31, 2012, Meralco's reported and core income amounted to Php3,373 million and Php3,418 million, respectively, as compared with Php2,132 million and Php3,252 million, respectively, in the same period in 2011. These results were due primarily to increases in billed customers and electricity sales volume, as well as higher generation charges, partially offset by lower distribution rates in the first quarter of 2012 as compared with the same period in 2011. PCEV's share in the reported and core income of Meralco, including its share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php213 million and Php303 million, respectively, in the first quarter of 2012 and Php140 million and Php452 million, respectively, in the same period in 2011. PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares and 68.8 million shares were transferred on May 12, 2010 and October 25, 2011, respectively, to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010.

Net Income

As a result of the foregoing, other services registered a net income of Php428 million, an increase of Php215 million, or 101%, in the first quarter of 2012 from Php213 million in the same period in 2011.

EBITDA

As a result of the foregoing, EBITDA from other services decreased by Php1 million, or 25%, to negative Php5 million in the first quarter of 2012 from negative Php4 million in the same period in 2011.

Core Income

Other services' core income amounted to Php517 million in the first quarter of 2012, a decrease of Php8 million, or 2%, as compared with Php525 million in the same period in 2011 mainly as a result of an increase in expenses, partially offset by higher other income.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the three months ended March 31, 2012 and 2011, as well as our consolidated capitalization and other consolidated selected financial data as at March 31, 2012 and December 31, 2011:

	Three Months ended March 31,	
	2012	2011
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php18,592	Php20,830
Net cash used in investing activities	5,610	2,699
Capital expenditures	*2,751*	*3,112*
Net cash provided by (used in) financing activities	(12,102)	1,224
Net increase in cash and cash equivalents	735	19,291

	March 31,	December 31,
	2012	2011
	(Unaudited)	(Audited)
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php92,755	Php91,273
Obligations under finance lease	6	7
	92,761	91,280
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	19,275	22,893
Notes payable	2,058	3,109
Obligations under finance lease maturing within one year	7	7
	21,340	26,009
Total interest-bearing financial liabilities	114,101	117,289
Total equity attributable to equity holders of PLDT	136,775	151,833
	Php250,876	Php269,122
Other Selected Financial Data		
Total assets	Php400,286	Php395,646
Property, plant and equipment	192,968	197,731
Cash and cash equivalents	46,792	46,057
Short-term investments	607	558

Our consolidated cash and cash equivalents and short-term investments totaled Php47,399 million as at March 31, 2012. Principal sources of consolidated cash and cash equivalents in the first quarter of 2012 were cash flows from operating activities amounting to Php18,592 million, proceeds from availment of long-term debt and notes payable of Php10,136 million, interest received of Php358 million, dividends received of Php224 million. These funds were used principally for: (1) debt principal and interest payments of Php12,228 million and Php1,404 million, respectively; (2) Trust Fund for redemption of shares of Php5,708 million; (3) capital outlays of Php2,751 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php3,427 million; (5) payment of capital expenditures under long-term financing of Php2,545 million; and (6) settlements of derivative financial instruments of Php141 million.

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) total debt principal and interest payments of Php5,451 million and Php1,230 million, respectively; (2) capital outlays of Php3,112 million; (3) settlements of derivative financial instruments of Php165 million; and (4) dividend payments of Php53 million.

Operating Activities

Our consolidated net cash flows from operating activities decreased by Php2,238 million, or 11%, to Php18,592 million in the first quarter of 2012, including Digitel Group's cash flows from operating activities for the first quarter of 2012 of Php1,778 million, from Php20,830 million in the same period in the first quarter of 2012, primarily due to higher settlement of various payables and lower collection of receivables.

Cash flows provided by operating activities of our fixed line business increased by Php1,657 million, or 24%, to Php8,514 million in the first quarter of 2012 from Php6,857 million in the same period in 2011, primarily due to lower level of settlement of accounts payable and other liabilities, partially offset by lower collection of receivables. Cash flows from operating activities of our wireless business decreased by Php4,141 million, or 30%, to Php9,515 million in the first quarter of 2012 from Php13,656 million in the same period in 2011, primarily due to lower operating income, higher level of settlement of accounts payable and other current liabilities, and lower level of collection of outstanding receivables. Cash flows provided by operating activities of our BPO business in the first quarter of 2012 amounted to Php601 million, an increase of Php158 million, or 36%, from Php443 million in the same period in 2011, primarily due to higher operating income and a higher level of collection of outstanding receivables, partially offset by a higher level of settlement of accounts payable and other liabilities.

Investing Activities

Consolidated net cash used in investing activities amounted to Php5,610 million in the first quarter of 2012, including the Digitel Group's cash flows used in investing activities of Php29 million, an increase of Php2,911 million, or 108%, from Php2,699 million in the same period in 2011, primarily due to the combined effects of the following: (1) the payment for purchase of investments in associates and purchase of shares of noncontrolling shareholders by Php3,427 million; (2) the decrease in capital expenditures by Php361 million; (3) the payment for purchase of short-term investments by Php30 million; (4) the higher interest received by Php70 million; (5) higher dividends received by Php42 million; and (6) the higher proceeds from disposal of property, plant and equipment of Php23 million.

Our consolidated capital expenditures in first quarter of 2012 totaled Php2,751 million, a decrease of Php361 million, or 12%, as compared with Php3,112 million in the same period in 2011, primarily due to a decrease in PLDT's and Smart's capital spending, partially offset by the inclusion of the Digitel Group's capital spending of Php33 million for the first quarter of 2012. PLDT's capital spending of Php1,366 million in first quarter of 2012 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 Php1,207 million in first quarter of 2012 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. SPi and its subsidiaries' capital spending of Php66 million in first quarter of 2012 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. Digitel's capital spending of Php33 million for the first quarter of 2012 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The balance of Php79 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 2012 amounted to Php224 million, an increase of Php42 million, or 23%, as compared with Php182 million in the same period in 2011. The dividends received in the first quarter of 2012 and 2011 were from Beacon, Meralco and Philweb.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php12,102 million in 2011, including the Digitel Group's net cash used in financing activities for the first quarter of 2012 of Php1,278 million, a decrease of Php13,326 million as against net cash from financing activities of Php1,224 million in the same period in 2011, resulting largely from the combined effects of the following: (1) net increase in repayments of long-term debt and notes payable by Php6,777 million; (2) set up of Trust Fund for the redemption of shares of Php5,708 million; (3) higher net availment of capital expenditures under long-term financing by Php944 million; (4) higher proceeds from the issuance of long-term debt and notes payable by Php386 million; (5) higher interest payments by Php174 million; (6) lower settlements of derivative financial instruments by Php24 million; and (7) lower cash dividend payments by Php20 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the three months ended March 31, 2012 were Php10,071 million and Php65 million, respectively, mainly from Smart's and SPi's drawings related to the financing of our capital expenditure requirements maturing loan obligations. Payments of principal and interest on our total debt amounted to Php12,228 million and Php1,404 million, respectively, in the first quarter of 2012, including the Digitel Group's payments of principal and interest of Php729 million and Php81 million, respectively.

Our consolidated long-term debt decreased by Php2,136 million to Php112,030 million as at March 31, 2012 from Php114,166 million as at December 31, 2011, largely due to debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php42.93 as at March 31, 2012 from Php43.92 as at December 31, 2011, partially offset by drawings from our term loan facilities. The long-term debt levels of PLDT decreased by 3% to Php54,293 million, and Smart's decreased by 1% to Php36,684 million as at March 31, 2012 as compared with December 31, 2011.

On March 7, 2012, PLDT signed a US$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the facility agent. Proceeds from the facility will be used to finance capital expenditures and/or to refinance PLDT's existing obligations which were also used to finance capital expenditures for network expansion and improvement programs. The facility is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the facility agreement. A notice of borrowing has been made to the lenders for the initital drawdown of US$100 million on May 10, 2012.

On March 16, 2012, PLDT signed a US$25 million term loan facility agreement with Citibank, N.A. Manila to refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. This loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date. No drawdown has been made to-date under this agreement.

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

On March 26, 2012, SPi signed a loan agreement amounting to US$15 million with Security Banking Corporation. The loan will mature on March 26, 2017 and is payable in 19 quarterly installments commencing on September 24, 2012. The amount of US$15 million, or Php644 million, remained outstanding as at March 31, 2012.

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with Land Bank of the Philippines to finance capital expenditures and/or refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity. No drawdown has been made to-date under this agreement.

As a result of the acquisition of Digitel, as discussed in Other Information, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGSHI, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGSHI. These loans and guarantees contained certain representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGSHI by PLDT as guarantor under these loans. As at March 31, 2012, the outstanding balance of DMPI loans covered by PLDT guarantees is Php17,731 million. There are no outstanding Digitel loans covered by PLDT guarantees as at March 31, 2012.

Approximately Php64,708 million principal amount of our consolidated outstanding long-term debt as at March 31, 2012 is scheduled to mature over the period from 2012 to 2015. Of this amount, Php25,770 million is attributable to Smart, Php26,531 million to PLDT, Php11,909 million to Digitel, Php474 million is attributable to SPi and the remainder to ePLDT's subsidiaries.

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

Debt Covenants

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

As at March 31, 2012, we were in compliance with all of our debt covenants.

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

Financing Requirements

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

Consolidated cash dividend payments in the first quarter of 2012 amounted to Php33 million as compared with Php53 million paid to shareholders in the same period in 2011.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the three months ended March 31, 2012 and 2011:

	Date			Amount	
Earnings	**Approved**	**Record**	**Payable**	**Per share**	**Total Declared**
				(in millions, except per share amount)	
2011					
Common					
Regular Dividend	March 6, 2012	March 20, 2012	April 20, 2012	63.00	Php13,611
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,371
				189.00	23,982
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	Various	Various	Various	–	12
					12
					Php23,994
2012					
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[1]	May 8, 2012	May 28, 2012	June 15, 2012	–	12
					Php12

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

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

Off-Balance Sheet Arrangements

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

Equity Financing

As part of our goal to maximize returns to our shareholders, in 2008, we obtained Board of Directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock. Under the share buyback program, we acquired a total of approximately 2.72 million shares of PLDT's common stock for a total consideration of Php6,505 million representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share as at March 31, 2012. 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 first quarter of 2012 and 2011. See to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at March 31, 2012 and 2011, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php271 million and Php913 million as at March 31, 2012 and December 31, 2011, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at March 31, 2012 and December 31, 2011:

	Fair Values	
	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php76	Php81
Unlisted equity securities	7,101	7,100
Investments in debt securities	155	158
Advances and refundable deposits – net of current portion	852	1,061
Total noncurrent financial assets	8,184	8,400
Current Financial Assets		
Cash and cash equivalents	46,792	46,057
Short-term investments	607	558
Trade and other receivables – net	16,014	16,245
Derivative financial assets	438	366
Current portion of investment in debt securities	363	358
Current portion of advances and refundable deposits	8,050	18
Total current financial assets	72,264	63,602
Total Financial Assets	**Php80,448**	**Php72,002**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php98,538	Php95,059
Derivative financial liabilities	2,236	2,235
Customers' deposits	1,722	1,772
Deferred credits and other noncurrent liabilities	16,640	19,420
Total noncurrent financial liabilities	119,136	118,486
Current Financial Liabilities		
Accounts payable	23,815	27,982
Accrued expenses and other current liabilities	44,971	40,459
Interest-bearing financial liabilities	21,340	26,009
Derivative financial liabilities	985	924
Dividends payable	24,723	2,583
Total current financial liabilities	115,834	97,957
Total Financial Liabilities	**Php234,970**	**Php216,443**

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, 2012 and for the year ended December 31, 2011:

	March 31, 2012	December 31, 2011
	(in millions)	
Profit and Loss		
Interest income	Php357	Php1,372
Gains (losses) on derivative financial instruments – net	(95)	197
Accretion on financial liabilities	(288)	(1,062)
Interest on loans and other related items	(1,591)	(5,960)
Other Comprehensive Income		
Net fair value gains on cash flow hedges	32	14
Net gains on available-for-sale financial assets – net of tax	1	3
	(Php1,584)	**(Php5,436)**

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 2012 and 2011 was 3.1% and 3.9%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

PLDT's Acquisition of Digitel

On March 29, 2011, the Board of Directors of PLDT and JGSHI approved the acquisition by PLDT of JGSHI's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is the 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGSHI and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.7 million new PLDT common shares) consideration payable for the Enterprise Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Enterprise Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

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

In addition, the sale of the Digitel shares owned by the seller-parties was subject to the consent of certain creditors of Digitel and DMPI. Digitel and DMPI have outstanding long-term debts that had been guaranteed by JGSHI. The loans and guarantees contained representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGSHI by PLDT as guarantor for these loans.

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

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

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

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

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

In a letter dated April 23, 2012, Smart updated the NTC on the status of the migration of CURE's Red Mobile subscribers to Smart's network. Smart informed the NTC that it is in the process of conducting a survey of these subscribers to enable Smart to offer migration plans that are affordable and yet will address the various needs of said subscribers. In addition, Smart is also in the process of identifying the assets of CURE that need to be transferred to Smart, pursuant to the conditions mandated by the NTC.

As payment for the Enterprise Assets, PLDT issued approximately 27.7 million common shares with a total issue value of around Php69 billion to the seller-parties. Said shares are subject to a lock-up period of one (1) year during which JGSHI and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consents to the sale by JGSHI of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGSHI had entered into with a Philippine associate of First Pacific Company Limited and NTT DOCOMO, Inc., or NTT DOCOMO, respectively. Following the sale of those shares in November 2011, the JG Summit Group, First Pacific Group and its Philippine affiliates, and NTT Group (NTT DOCOMO and NTT Communications) owned approximately 8%, 26% and 21% of PLDT's common shares, respectively, as at March 31, 2012.

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

Under the SRC, PLDT is required to conduct a mandatory tender offer for the approximately 48.4% of the issued common stock of Digitel held by the remaining noncontrolling shareholders of Digitel in connection with PLDT's acquisition of 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of Digitel shareholders, except for tendering shareholders residing outside the Philippines who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012. A total of 2,888 million shares were tendered by Digitel minority shareholders, representing approximately 94% of the shares held by the public. Of the shares tendered, 13% or 374 million Digitel shares were paid in cash for an aggregate amount of Php600 million, and 87% or 2,514 million Digitel shares were paid in PLDT common shares for a total of approximately 1.61 million PLDT common shares, which were issued on January 27, 2012.

On January 25, 2012, Digitel filed for voluntary delisting of its shares with the PSE, since its public ownership level has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and accordingly ordered the delisting of the shares of Digitel from the Official Registry of the PSE effective March 26, 2012, subject to the payment of the required voluntary delisting fee. Digitel complied with the said condition and the Digitel shares ceased to be tradable on the PSE effective March 26, 2012.

On February 7, 2012, PLDT's Board of Directors authorized the exchange of 78.4% of the 2014 Exchangeable Bonds issued by DCPL with redemption value of US$340 million, or Php14,641 million, in exchange for 14,641 million Digitel common shares. As at March 26, 2012, PLDT purchased a total of 72.3 million common shares of Digitel from the open market. As a result of the tender offer, open market acquisitions, and the exchange described above, PLDT holds 99.5% of the outstanding capital of Digitel as at March 31, 2012. On May 8, 2012, PLDT's Board of Directors authorized the exchange of the remaining 2014 Exchangeable Bonds with redemption value of US$27 million, or Php1,143 million, in exchange for 1,143 million Digitel common shares. The exchange is subject to the approval of the Philippine SEC of the increase in the Authorized Capital Stock of Digitel. As a result of this additional exchange, PLDT will maintain 99.5% of the enlarged outstanding capital of Digitel.

PLDT's Listing of Additional Common Shares

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

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

PLDT's Creation of Voting Preferred Shares

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

The Special Meeting of Stockholders scheduled on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments, or the Special Meeting, was cancelled by the Board of Directors due to an anticipated lack of quorum.

In the Special Meeting of Stockholders which was held on March 22, 2012 , the Amendments of the Articles were approved by the holders of more than two-thirds of the outstanding capital stock (common and preferred) of PLDT. The Amended Articles of Incorporation have been filed with the Philippines SEC and PLDT expects to obtain the Philippine SEC's approval in due time.

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

Redemption of Preferred Shares

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

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

PLDT set aside Php5.8 billion, in addition to the Php2.3 billion funds from unclaimed dividends on SIP Preferred Shares, or the total amount of Php8.1 billion, to fund the redemption price for the SIP Preferred Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of Rizal Commercial Banking Corporation, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold in trust the Redemption Trust Fund, for the benefit of those Holders of SIP Preferred Shares entitled to payment of the Redemption Price for their SIP Preferred Shares, for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time to, PLDT.

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

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock had been redeemed and retired effective January 19, 2012. A total amount of Php142 million was withdrawn from the Trust Account, representing total payments in redemption as at March 31, 2012. The balance of the Trust Account of Php8.031 billion was presented as part of current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our statement of financial position as at March 31, 2012.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's 10% Cumulative Convertible Preferred Stock Series GG effective August 30, 2012.

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

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

Beacon's Acquisition of Additional Meralco Shares

In January 2012, Beacon acquired 30 million Meralco common shares from First Pacific Utilities Corporation, or FPUC, representing approximately 2.7% beneficial ownership in Meralco at nominal value of Php295 per share, or a total of Php8,850 million. FPUC will retain Rockwell common shares that may be declared by Meralco as property dividends.

PCEV's Voluntary Delisting

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the Philippine Stock Exchange in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to purchase the shares owned by the remaining minority shareholders representing 0.49% of the outstanding common stock of PCEV. Smart filed a Tender Offer Report with the Philippine SEC on March 15, 2012. The Tender Offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares or 43.4% of PCEV's noncontrolling shares tendered, thereby increasing Smart's ownership to approximately 99.7% of the outstanding common stock of PCEV. On the other hand, PCEV filed with the PSE its petition for voluntary delisting on March 19, 2012. On April 25, 2012, the PSE approved PCEV's petition for voluntary delisting, which will take effect on May 18, 2012.

Investment in PDRs of MediaQuest

On May 8, 2012, the PLDT Board of Directors approved a Php6.0 billion investment by ePLDT, in Philippine Depositary Receipts, or PDRs, to be issued by MediaQuest Holdings, Inc., or MediaQuest, a wholly-owned entity of the PLDT Beneficial Trust Fund. MediaQuest will invest the proceeds of the PDRs in TV5 and Cignal TV. TV5 operates free-to-air TV and radio stations while Cignal TV operates a DTH satellite TV business.

Since 2007, TV5 has grown its market share from 2.3% to 18% at the end of 2011 for Metro Manila and from 2.7% to 15.6% nationwide. Cignal TV is now the largest DTH Pay-TV operator in the Philippines, with over 250,000 subscribers. This investment will provide MediaQuest with the additional funding it requires in order to sustain the growth momentum of TV5 and Cignal TV.

The PLDT Group's financial investment in media is consistent with its overall strategy of evolving itself from a traditional telco into a multi-media service company. It mirrors as well similar investments in media assets by other leading telecommunications companies worldwide. MediaQuest will serve as the anchor for the PLDT Group's media offerings through the creation of content, generation of new revenue streams, and providing of direct access to overseas Filipino workers worldwide.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at March 31, 2012:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php11,553	Php2,377	Php668	Php258	Php8,250
Corporate subscribers	9,201	1,803	1,181	441	5,776
Foreign administrations	4,917	1,599	1,444	604	1,270
Domestic carriers	1,584	221	97	98	1,168
Dealers, agents and others	3,995	2,944	115	229	707
Total	Php31,250	Php8,944	Php3,505	Php1,630	Php17,171
Less: Allowance for doubtful accounts	15,236				
Total Receivables - net	**Php16,014**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first quarter of 2012 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-REVILLA
First Vice President and Controller
(Principal Accounting Officer)

Date: May 8, 2012