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)

September 30, 2012

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT

November 6, 2012

Philippine Stock Exchange, Inc.
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: Ms. Janet A. Encarnacion
Head – Disclosure Dept.

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith a copy of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2012.

Very truly yours,

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

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

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

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

12,212
As of September 30, 2012

Total No. of Stockholders

N/A

Domestic

N/A

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 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 September 30, 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 September 30, 2012 (unaudited) and December 31, 2011 (as restated) and for the nine months ended September 30, 2012 and 2011 (unaudited) and related notes (pages F-1 to F-135) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php41.74 to US$1.00, the volume weighted average exchange rate as at September 30, 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 in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)	September 30, 2012 (Unaudited)	December 31, 2011 (As Restated[1])	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php402,247	Php400,004	Php2,243	1
Property, plant and equipment – net	196,027	200,142	(4,115)	(2)
Cash and cash equivalents and short-term investments	39,204	46,615	(7,411)	(16)
Total equity attributable to equity holders of PLDT	140,916	151,833	(10,917)	(7)
Notes payable and long-term debt, including current portion	126,775	117,275	9,500	8
Net debt[2] to equity ratio	0.62x	0.47x	–	–

	Nine Months Ended September 30, 2012 (Unaudited)	Nine Months Ended September 30, 2011 (Unaudited)	Increase (Decrease) Amount	%
Consolidated Income Statements				
Revenues	Php128,557	Php114,049	Php14,508	13
Expenses	94,441	73,368	21,073	29
Other income (expenses)	3,206	(355)	3,561	1,003
Income before income tax	37,322	40,326	(3,004)	(7)
Net income for the period	28,689	30,607	(1,918)	(6)
Net income attributable to equity holders of PLDT:				
Reported net income	28,714	30,618	(1,904)	(6)
Core income	28,020	30,602	(2,582)	(8)
EBITDA	58,578	61,071	(2,493)	(4)
EBITDA margin[3]	46%	54%	–	–
Reported earnings per common share:				
Basic	132.73	162.11	(29.38)	(18)
Diluted	132.73	162.06	(29.33)	(18)
Core earnings per common share[4]:				
Basic	129.52	162.02	(32.50)	(20)
Diluted	129.52	161.98	(32.46)	(20)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	54,822	54,987	(165)	–
Net cash used in investing activities	22,765	14,360	8,405	59
Capital expenditures	*19,294*	*14,548*	*4,746*	*33*
Net cash used in financing activities	39,125	44,633	(5,508)	(12)
Operational Data				
Number of cellular subscribers	68,599,733	47,736,961	20,862,772	44
Number of fixed line subscribers	2,127,188	1,868,759	258,429	14
Number of broadband subscribers:	3,169,031	2,299,815	869,216	38
Fixed Line	*901,601*	*743,182*	*158,419*	*21*
Wireless	*2,267,430*	*1,556,633*	*710,797*	*46*
Number of employees:	36,182	29,298	6,884	23
Fixed Line	*10,619*	*9,290*	*1,329*	*14*
Wireless	*8,281*	*5,210*	*3,071*	*59*
Business Process Outsourcing	*17,282*	*14,798*	*2,484*	*17*

Exchange Rates – per US$	Month-end rates	Weighted average rates during the period
September 30, 2012	Php41.74	Php42.56
December 31, 2011	43.92	43.31
September 30, 2011	43.80	43.26
December 31, 2010	43.81	45.12

(1) *The December 31, 2011 comparative information was restated to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation with the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel to the accompanying unaudited consolidated financial statements.*

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

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

Overview

We are the largest and most diversified telecommunications company in the Philippines. 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 (the *Red Mobile* business of CURE was transferred to Smart on July 31, 2012), 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 September 30, 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 16% 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, ABM Global Solutions, Inc. (formerly known as BayanTrade, Inc.), or AGS, and its subsidiaries, or AGS Group, and 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, disposed of its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011, and transferred its 99.64% interest in Infocom to SPi Global on December 6, 2011;

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

- *Others* — PCEV, an 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.

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. Subsequently, the Board of Directors decided to include Infocom in the spin-off. 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 acquired 50% equity interest in Beacon Electric Asset Holdings, Inc., or Beacon, effective March 31, 2010, with the transfer of 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 company and was reclassified from Wireless to Others business segment.

As at September 30, 2012, our chief operating decision maker 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 for the period 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 nine months ended September 30, 2012 and 2011 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2012 and 2011:

	2012	2011
	(in millions)	
Consolidated EBITDA	Php58,578	Php61,071
Foreign exchange gains – net	2,403	106
Equity share in net earnings of associates and joint ventures	1,440	1,520
Interest income	1,019	1,013
Asset impairment	–	(7)
Amortization of intangible assets	(1,158)	(207)
Gains (losses) on derivative financial instruments – net	(1,532)	626
Financing costs – net	(5,009)	(4,772)
Depreciation and amortization	(23,304)	(20,176)
Other income	4,885	1,152
Consolidated income before income tax	37,322	40,326
Provision for income tax	(8,633)	(9,719)
Consolidated net income	Php28,689	Php30,607

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the nine months ended September 30, 2012 and 2011:

	2012	2011
	(in millions)	
Consolidated core income	Php28,020	Php30,602
Foreign exchange gains – net	2,403	100
Core income adjustment on equity share in net earnings of associates and joint ventures	(90)	(453)
Gains (losses) on derivative financial instruments – net, excluding hedge cost	(1,283)	894
Others	–	(364)
Net tax effect of aforementioned adjustments	(336)	(161)
Net income attributable to equity holders of PLDT	28,714	30,618
Net loss attributable to noncontrolling interests	(25)	(11)
Consolidated net income	Php28,689	Php30,607

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/segment profit, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2012 and 2011. In each of the nine months ended September 30, 2012 and 2011, we generated a majority of our revenues from our operations within the Philippines.

	Wireless		Fixed Line		BPO (in millions)		Others		Inter-segment Transactions		Consolidated	
For the nine months ended September 30, 2012												
Revenues	Php88,973		Php46,157		Php7,270		Php–		(Php13,843)		Php128,557	
Expenses	61,326		41,016		6,272		15		(14,188)		94,441	
Other income (expenses)	701		(1,340)		31		4,159		(345)		3,206	
Income before income tax	28,348		3,801		1,029		4,144		–		37,322	
Provision for income tax	7,836		535		259		3		–		8,633	
Net income/Segment profit	20,512		3,266		770		4,141		–		28,689	
EBITDA	41,942		14,822		1,484		(15)		345		58,578	
EBITDA margin(1)	48%		33%		20%		–		–		46%	
Core income	19,291		3,733		765		4,231		–		28,020	
For the nine months ended September 30, 2011												
Revenues	75,164		44,312		6,287		–		(11,714)		114,049	
Expenses	43,838		35,880		5,594		9		(11,953)		73,368	
Other income (expenses)	(1,242)		(534)		108		1,552		(239)		(355)	
Income before income tax	30,084		7,898		801		1,543		–		40,326	
Provision for income tax	7,590		2,073		54		2		–		9,719	
Net income/Segment profit	22,494		5,825		747		1,541		–		30,607	
EBITDA	41,949		17,778		1,114		(9)		239		61,071	
EBITDA margin(1)	57%		41%		18%		–		–		54%	
Core income	22,932		5,017		659		1,994		–		30,602	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Revenues	Php13,809	18	Php1,845	4	Php983	16	Php–	–	(Php2,129)	18	Php14,508	13
Expenses	17,488	40	5,136	14	678	12	6	67	(2,235)	19	21,073	29
Other income (expenses)	1,943	156	(806)	151	(77)	(71)	2,607	168	(106)	44	3,561	1,003
Income before income tax	(1,736)	(6)	(4,097)	(52)	228	28	2,601	169	–	–	(3,004)	(7)
Provision for income tax	246	3	(1,538)	(74)	205	380	1	50	–	–	(1,086)	(11)
Net income /Segment profit (loss)	(1,982)	(9)	(2,559)	(44)	23	3	2,600	169	–	–	(1,918)	(6)
EBITDA	(7)	–	(2,956)	(17)	370	33	(6)	67	106	44	(2,493)	(4)
Core income	(3,641)	(16)	(1,284)	(26)	106	16	2,237	112	–	–	(2,582)	(8)

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

The table below shows the contribution by business segment of the results of the Digitel Group to our consolidated revenues, expenses, other income, income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2012.

	Wireless	Fixed Line	Consolidated (in millions)	Intercompany Transactions	Incremental Effect on PLDT Group
Revenues	Php15,659	Php2,514	Php18,173	(Php1,190)	Php16,983
Expenses	15,049	2,455	17,504	(1,341)	16,163
Other income	370	2,322	2,692	(1,976)	716
Income before income tax	980	2,381	3,361	(1,825)	1,536
Provision for income tax	156	58	214	–	214
Net income /Segment profit	824	2,323	3,147	(1,825)	1,322
EBITDA	4,718	450	5,168	151	5,319
EBITDA margin(1)	31%	18%	29%	–	32%
Core income	218	120	338	315	653

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

On a Consolidated Basis

We reported consolidated revenues of Php128,557 million, which includes a revenue contribution from the Digitel Group of Php16,983 million, in the first nine months of 2012, an increase of Php14,508 million, or 13%, as compared with Php114,049 million in the same period in 2011, primarily due to an increase in our service revenues by Php13,976 million as a result of higher cellular and broadband revenues from our wireless business, higher revenues from data and other network and local exchange services of our fixed line business, as well as higher service revenues from our BPO business, partially offset by lower revenues from national and international long distance, and miscellaneous services of our fixed line business, and satellite and other services of our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the nine months ended September 30, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php88,973	69	Php75,164	66	Php13,809	18
Fixed line	46,157	36	44,312	39	1,845	4
BPO	7,270	6	6,287	5	983	16
Inter-segment transactions	(13,843)	(11)	(11,714)	(10)	(2,129)	18
Consolidated	Php128,557	100	Php114,049	100	Php14,508	13

(1) *Includes the Digitel Group's results of operations for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.*

Consolidated expenses increased by Php21,073 million, or 29%, to Php94,441 million in the first nine months of 2012, which includes expenses from the Digitel Group of Php16,163 million, from Php73,368 million in the same period in 2011, largely as a result of higher compensation and employee benefits, depreciation and amortization, repairs and maintenance, cost of sales, selling and promotions, rent, taxes and licenses, amortization of intangible assets, professional and other contracted services, asset impairment, and communication, training and travel, partly offset by lower interconnection costs and other operating expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the nine months ended September 30, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php61,326	65	Php43,838	60	Php17,488	40
Fixed line	41,016	43	35,880	49	5,136	14
BPO	6,272	7	5,594	7	678	12
Others	15	–	9	–	6	67
Inter-segment transactions	(14,188)	(15)	(11,953)	(16)	(2,235)	19
Consolidated	Php94,441	100	Php73,368	100	Php21,073	29

(1) *Includes the Digitel Group's results of operations for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.*

Consolidated other income in the first nine months of 2012, which includes other income from the Digitel Group of Php716 million, amounted to Php3,206 million, a change of Php3,561 million as against other expenses of Php355 million in the same period in 2011, primarily due to the combined effects of the following: (i) an increase in other income by Php3,733 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon, preferred dividends from Beacon, gain on the first tranche of disposal of Philweb shares, 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; (ii) higher net foreign exchange gains by Php2,297 million mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the effect of a higher level of appreciation of the Philippine peso to the U.S. dollar and the inclusion of the Digitel Group’s gain on revaluation of dollar-denominated net liabilities in the first nine months of 2012; (iii) higher interest income by Php6 million due to the higher average level of investments, partly offset by a lower average interest rate, effect of appreciation of the Philippine peso relative to the U.S. dollar and shorter average tenor of placements; (iv) net decrease in equity share in net earnings of associates and joint ventures by Php80 million; (v) an increase in net financing costs by Php237 million mainly due to higher interest on loans and other related items on account of higher outstanding long-term debts, partially offset by our wireless business’ higher capitalized interest in the first nine months of 2012; and (vi) net losses on derivative financial instruments of Php1,532 million in the first nine months of 2012 as against net gains on derivative financial instruments of Php626 million in the same period in 2011 mainly due to the effect of narrower U.S. dollar and Philippine peso interest rate differentials on principal-only swap transactions of PLDT and the inclusion of interest rate swap contracts of DMPI in the first nine months of 2012, partially offset by lower hedge costs of PLDT.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the nine months ended September 30, 2012 and 2011:

					Change	
	2012[(1)]	**%**	**2011**[(2)]	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php701	22	(Php1,242)	350	Php1,943	156
Fixed line	(1,340)	(42)	(534)	150	(806)	151
BPO	31	1	108	(30)	(77)	(71)
Others	4,159	130	1,552	(437)	2,607	168
Inter-segment transactions	(345)	(11)	(239)	67	(106)	44
Consolidated	Php3,206	100	(Php355)	100	Php3,561	1,003

(1) *Includes the Digitel Group’s results of operations for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

Consolidated net income decreased by Php1,918 million, or 6%, to Php28,689 million, which includes net income contribution from the Digitel Group of Php1,322 million, in the first nine months of 2012, from Php30,607 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 Php21,073 million; (ii) an increase in consolidated revenues by Php14,508 million; (iii) an increase in consolidated other income – net by Php3,561 million; and (iv) a decrease in consolidated provision for income tax by Php1,086 million, which was mainly due to lower taxable income from our fixed line business, partially offset by higher taxable income of our wireless and BPO businesses. Our consolidated basic and diluted EPS decreased to Php132.73 in the first nine months of 2012 from consolidated basic and diluted EPS of Php162.11 and Php162.06, 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 nine months ended September 30, 2012 and 2011, respectively.

The following table shows the breakdown of our consolidated net income by business segment for the nine months ended September 30, 2012 and 2011:

					Change	
	2012[1]	**%**	**2011**[2]	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php20,512	72	Php22,494	74	(Php1,982)	(9)
Fixed line	3,266	11	5,825	19	(2,559)	(44)
BPO	770	3	747	2	23	3
Others	4,141	14	1,541	5	2,600	169
Consolidated	Php28,689	100	Php30,607	100	(Php1,918)	(6)

(1) *Includes the Digitel Group's results of operations for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

EBITDA

Our consolidated EBITDA in the first nine months of 2012, which includes an EBITDA contribution from the Digitel Group of Php5,319 million, amounted to Php58,578 million, a decrease of Php2,493 million, or 4%, as compared with Php61,071 million in the same period in 2011, primarily due to higher operating expenses driven by higher compensation and employee benefits, repairs and maintenance, cost of sales, selling and promotions, rent, and taxes and licenses, partially offset by an increase in consolidated revenues.

The following table shows the breakdown of our consolidated EBITDA by business segment for the nine months ended September 30, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php41,942	72	Php41,949	69	(Php7)	–
Fixed line	14,822	25	17,778	29	(2,956)	(17)
BPO	1,484	2	1,114	2	370	33
Others	(15)	–	(9)	–	(6)	67
Inter-segment transactions	345	1	239	–	106	44
Consolidated	Php58,578	100	Php61,071	100	(Php2,493)	(4)

[1] *Includes the Digitel Group's results of operations for the first nine months of 2012.*
[2] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

Core Income

Our consolidated core income in the first nine months of 2012, which includes core income from the Digitel Group of Php653 million, amounted to Php28,020 million, a decrease of Php2,582 million, or 8%, as compared with Php30,602 million in the same period in 2011, primarily due to an increase in consolidated expenses, partially offset by increases in consolidated revenues and other income, as well as lower provision for income tax. Our consolidated basic and diluted core EPS also decreased to Php129.52 in the first nine months of 2012 from Php162.02 and Php161.98, respectively, in the same period in 2011.

The following table shows the breakdown of our consolidated core income by business segment for the nine months ended September 30, 2012 and 2011:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	Increase (Decrease) %
			(in millions)			
Wireless	Php19,291	69	Php22,932	75	(Php3,641)	(16)
Fixed line	3,733	13	5,017	16	(1,284)	(26)
BPO	765	3	659	2	106	16
Others	4,231	15	1,994	7	2,237	112
Consolidated	Php28,020	100	Php30,602	100	(Php2,582)	(8)

[1] *Includes the Digitel Group's results of operations for the first nine months of 2012.*
[2] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php88,973 million, including a contribution from DMPI of Php15,659 million, in the first nine months of 2012, an increase of Php13,809 million, or 18%, from Php75,164 million in the same period in 2011.

The following table summarizes our total revenues from our wireless business for the nine months ended September 30, 2012 and 2011 by service segment:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php79,672	90	Php68,097	91	Php11,575	17
Wireless broadband, satellite and others						
Wireless broadband	6,435	7	4,843	6	1,592	33
Satellite and others	1,194	1	1,216	2	(22)	(2)
	87,301	98	74,156	99	13,145	18
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,672	2	1,008	1	664	66
Total Wireless Revenues	Php88,973	100	Php75,164	100	Php13,809	18

(1) *Includes DMPI's revenues for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*

The following table summarizes the revenue contribution of DMPI for the nine months ended September 30, 2012 by service segment:

	Amount	%
	(in millions)	
Service Revenues:		
Cellular	Php13,851	89
Wireless broadband	1,430	9
	15,281	98
Non-Service Revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	378	2
Total Wireless Revenues	Php15,659	100

Service Revenues

Our wireless service revenues in the first nine months of 2012, which includes service revenues from DMPI of Php15,281 million, increased by Php13,145 million, or 18%, to Php87,301 million as compared with Php74,156 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 nine months of 2012, partially offset by the decline in Smart's revenues from international and domestic 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 SMS 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 Php42.56 for the nine months ended September 30, 2012 from Php43.26 for the nine months ended September 30, 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 nine months of 2012 were lower as compared with the same period in 2011. As a percentage of our total wireless revenues, service revenues accounted for 98% and 99% in the first nine months of 2012 and 2011, respectively.

Cellular Service

Our cellular service revenues in the first nine months of 2012, which includes revenues from DMPI of Php13,851 million, amounted to Php79,672 million, an increase of Php11,575 million, or 17%, from Php68,097 million in the same period in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in the first nine months 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 nine months ended September 30, 2012 and 2011:

			Increase	
	2012[1]	**2011[2]**	**Amount**	**%**
		(in millions)		
Cellular service revenues	Php79,672	Php68,097	Php11,575	17
By service type	*77,686*	*66,279*	*11,407*	*17*
Prepaid	65,265	60,324	4,941	8
Postpaid	12,421	5,955	6,466	109
By component	*77,686*	*66,279*	*11,407*	*17*
Voice	38,156	32,004	6,152	19
Data	39,530	34,275	5,255	*15*
Others[3]	*1,986*	*1,818*	*168*	*9*

(1) *Includes DMPI's revenues for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*
(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 nine months ended September 30, 2012:

Cellular service revenues (in millions)	Php13,851
By service type	*13,629*
Prepaid	8,253
Postpaid	5,376
By component	*13,629*
Voice	8,426
Data	5,203
Others	*222*

The following table shows our other key measures of our cellular business as at and for the nine months ended September 30, 2012 and 2011:

	2012	2011	Increase (Decrease) Amount	%
Cellular subscriber base	68,599,733	47,736,961	20,862,772	44
Prepaid	66,415,877	47,259,793	19,156,084	41
Smart Prepaid	*24,977,891*	*26,129,264*	*(1,151,373)*	*(4)*
Talk 'N Text	*26,524,760*	*19,522,683*	*7,002,077*	*36*
Sun Cellular[1]	*14,513,253*	*–*	*14,513,253*	*100*
Red Mobile[2]	*399,973*	*1,607,846*	*(1,207,873)*	*(75)*
Postpaid	2,183,856	477,168	1,706,688	358
Sun Cellular[1]	*1,524,946*	*–*	*1,524,946*	*100*
Smart	*658,821*	*476,744*	*182,077*	*38*
Red Mobile[2]	*89*	*424*	*(335)*	*(79)*
Systemwide traffic volumes (in millions)				
Calls (in minutes)[3]	38,097	30,161	7,936	26
Domestic	35,579	27,857	7,722	28
Inbound	*1,246*	*998*	*248*	*25*
Outbound	*34,333*	*26,859*	*7,474*	*28*
International	2,518	2,304	214	9
Inbound	*2,224*	*2,163*	*61*	*3*
Outbound	*294*	*141*	*153*	*109*
SMS/Data count (in hits)[4]	388,207	243,436	144,771	59
Text messages	380,891	242,138	138,753	57
Domestic	380,260	241,677	138,583	57
Bucket-Priced/Unlimited	348,440	221,882	126,558	57
Standard	31,820	19,795	12,025	61
International	631	461	170	37
Value-Added Services	7,276	1,273	6,003	472
Financial Services	40	25	15	60

(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 Digitel.
(2) Activations have been discontinued since the fourth quarter of 2011 due to the transfer of the Red Mobile business from CURE to Smart which was completed on June 30, 2012.
(3) Includes DMPI's minutes for the first nine months of 2012.
(4) Includes DMPI's SMS counts (except financial services) for the first nine months of 2012.

Revenues generated from our prepaid cellular services amounted to Php65,265 million in the first nine months of 2012, an increase of Php4,941 million, or 8%, as compared with Php60,324 million in the same period in 2011. Prepaid cellular service revenues accounted for 84% and 91% of cellular voice and data revenues in the first nine months of 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php12,421 million in the first nine months of 2012, an increase of Php6,466 million, or 109%, as compared with Php5,955 million earned in the same period in 2011, and which accounted for 16% and 9% of cellular voice and data revenues in the first nine months 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 nine months of 2012 and Smart's higher revenues from domestic bucket-priced/unlimited SMS and internet-based VAS, partially offset by a decline in Smart's revenues from international and domestic calls and domestic standard SMS.

Revenues attributable to DMPI's prepaid and postpaid cellular services for the first nine months of 2012 amounted to Php8,253 million and Php5,376 million, and accounted for 61% and 39%, respectively, of DMPI's cellular voice and data revenues.

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 Php6,152 million, or 19%, to Php38,156 million in the first nine months of 2012 from Php32,004 million in the same period in 2011, primarily due to the inclusion of DMPI's revenues of Php8,426 million for the first nine months of 2012, partially offset by a decrease in Smart's international and domestic call revenues. Cellular voice services accounted for 48% and 47% of our cellular service revenues in each of the first nine months of 2012 and 2011, respectively.

The following table shows the breakdown of our cellular voice revenues for the nine months ended September 30, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php4,807	Php3,666	Php1,141	31
Outbound	21,093	15,983	5,110	32
	25,900	19,649	6,251	32
International				
Inbound	10,319	10,514	(195)	(2)
Outbound	1,937	1,841	96	5
	12,256	12,355	(99)	(1)
Total	Php38,156	Php32,004	Php6,152	19

(1) *Includes DMPI's revenues for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*

The following table shows the breakdown of DMPI's cellular voice revenues for the nine months ended September 30, 2012:

	(in millions)
Voice services:	
Domestic	*Php7,229*
Inbound	1,156
Outbound	6,073
International	*1,197*
Inbound	825
Outbound	372
Total	Php8,426

Domestic voice service revenues increased by Php6,251 million, or 32%, to Php25,900 million in the first nine months of 2012 from Php19,649 million in the same period in 2011, primarily due to an increase in domestic outbound and inbound voice service revenues of Php5,110 million and Php1,141 million, respectively.

Revenues from domestic outbound voice service increased by Php5,110 million, or 32%, to Php21,093 million in the first nine months of 2012 from Php15,983 million in the same period in 2011 mainly due to the inclusion of DMPI's domestic outbound voice service revenues of Php6,073 million for the first nine months of 2012, partially offset by the decrease in Smart's revenues from domestic outbound voice service on the back of lower traffic and yield on standard and unlimited calls. Domestic outbound call volume of 34,333 million minutes, which includes DMPI's domestic outbound call volume of 9,210 million minutes, in the first nine months of 2012, increased by 7,474 million minutes, or 28%, from 26,859 million minutes in the same period in 2011.

Revenues from our domestic inbound voice service increased by Php1,141 million, or 31%, to Php4,807 million in the first nine months of 2012 from Php3,666 million in the same period in 2011 primarily due to the effect of the inclusion of DMPI's domestic inbound voice service revenues of Php1,156 million for the first nine months of 2012, partially offset by the decrease in Smart's domestic inbound voice revenues due to lower traffic from domestic fixed line carriers. Domestic inbound call volumes of 1,246 million minutes, which includes DMPI's domestic inbound call volumes of 291 million minutes, in the first nine months of 2012, increased by 248 million minutes, or 25%, from 998 million minutes in the same period in 2011.

International voice service revenues decreased by Php99 million, or 1%, to Php12,256 million in the first nine months of 2012 from Php12,355 million in the same period in 2011 primarily due to lower international inbound voice service revenues by Php195 million, or 2%, to Php10,319 million in the first nine months of 2012 from Php10,514 million in the first nine months of 2011, partially offset by an increase in international outbound voice service revenues by Php96 million, or 5%, to Php1,937 million in the first nine months of 2012 from Php1,841 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 Php42.56 for the nine months ended September 30, 2012 from Php43.26 for the nine months ended September 30, 2011, and Smart's lower international inbound voice traffic and inbound termination rates, partially offset by the inclusion of DMPI's revenues of Php1,197 million for the first nine months of 2012. International inbound and outbound calls totaled 2,518 million minutes, which includes DMPI's international inbound and outbound call volume aggregating 384 million minutes, in the first nine months of 2012, an increase of 214 million minutes, or 9%, from 2,304 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 Php5,255 million, or 15% to Php39,530 million in the first nine months of 2012 from Php34,275 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues of Php5,203 million for the first nine months 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 nine months of 2012 and 2011.

The following table shows the breakdown of our cellular data service revenues for the nine months ended September 30, 2012 and 2011:

	2012[1]	2011[2]	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php33,165	Php29,152	Php4,013	14
Bucket-Priced/Unlimited	21,323	16,590	4,733	29
Standard	11,842	12,562	(720)	(6)
International	2,848	2,673	175	7
	36,013	31,825	4,188	13
Value-added services				
Internet-based[3]	2,181	1,133	1,048	92
Pasa Load/Give-a-load[4]	510	504	6	1
SMS-based[5]	459	442	17	4
MMS-based[6]	318	339	(21)	(6)
	3,468	2,418	1,050	43
Financial services	49	32	17	53
Total	Php39,530	Php34,275	Php5,255	15

[1] *Includes DMPI's revenues for the first nine months of 2012.*
[2] *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*
[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 nine months ended September 30, 2012:

	(in millions)
Text messaging	
Domestic	Php4,465
Bucket-Priced/Unlimited	2,935
Standard	1,530
International	228
	4,693
Value-added services	
Internet-based	390
SMS-based	110
Give-a-load	7
MMS-based	3
	510
Total	Php5,203

Text messaging-related services contributed revenues of Php36,013 million in the first nine months of 2012, an increase of Php4,188 million, or 13%, as compared with Php31,825 million in the same period in 2011, and accounted for 91% and 93% of our total cellular data service revenues in the first nine months of 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from the inclusion of DMPI's revenues of Php4,693 million in the first nine months of 2012, partially offset by lower text messaging revenues from Smart mainly due to the NTC-mandated decrease in SMS interconnection charges. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php21,323 million in the first nine months of 2012, an increase of Php4,733 million, or 29%, as compared with Php16,590 million in the same period in 2011, primarily due to the inclusion of revenues from DMPI's bucket-priced/unlimited plans of Php2,935 million and an increase in Smart's revenues from bucket-priced/unlimited SMS offers. Bucket-priced/unlimited text messages of 348,440 million, which includes DMPI's bucket-priced/unlimited text messages of 32,542 million, in the first nine months of 2012, increased by 126,558 million, or 57%, from 221,882 million in the same period in 2011.

Standard text messaging revenues, which includes outbound standard SMS and domestic inbound SMS revenues, decreased by Php720 million, or 6%, to Php11,842 million in the first nine months of 2012 from Php12,562 million in the same period in 2011, primarily due to Smart's lower standard text messaging revenues on the back of increased preference for unlimited SMS offers, 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 Php1,530 million in the first nine months of 2012. On the other hand, standard text messages of 31,820 million, which includes DMPI's standard text messages of 8,179 million, in the first nine months of 2012, increased by 12,025 million, or 61%, from 19,795 million in the same period in 2011, on the back of increased domestic inbound SMS volume, which offset the decline in domestic outbound standard SMS volume

International text messaging revenues amounted to Php2,848 million in the first nine months of 2012, an increase of Php175 million, or 7%, from Php2,673 million in the same period in 2011 mainly due to the inclusion of DMPI's revenues of Php228 million 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 Php3,468 million in the first nine months of 2012, an increase of Php1,050 million, or 43%, as compared with Php2,418 million in the same period in 2011, primarily due to an increase in revenues from Smart's internet-based VAS, particularly from mobile internet browsing, and the inclusion of DMPI's VAS revenues of Php510 million.

Subscriber Base, ARPU and Churn Rates

As at September 30, 2012, our cellular subscribers totaled 68,599,733, an increase of 20,862,772, or 44%, over the cellular subscriber base of 47,736,961 as at September 30, 2011. Our cellular prepaid subscriber base grew by 19,156,084, or 41%, to 66,415,877 as at September 30, 2012 from 47,259,793 as at September 30, 2011, and our cellular postpaid subscriber base increased by 1,706,688, or 358%, to 2,183,856 as at September 30, 2012 from 477,168 as at September 30, 2011. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 14,513,253 and 1,524,946, respectively, as at September 30, 2012, and the increase in Smart's *Talk 'N Text* subscribers. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at September 30, 2012 and 2011, respectively.

Our net subscriber activations for the nine months ended September 30, 2012 and 2011 were as follows:

	2012	2011	Increase (Decrease) Amount	%
Prepaid	4,623,085	2,045,360	2,577,725	126
Smart	*(1,595,246)*	*835,821*	*(2,431,067)*	*(291)*
Talk 'N Text	*6,057,585*	*555,302*	*5,502,283*	*991*
Red Mobile[(1)]	*(1,038,411)*	*654,237*	*(1,692,648)*	*(259)*
Sun Cellular[(2)]	*1,199,157*	*–*	*1,199,157*	*100*
Postpaid	280,019	55,593	224,426	404
Smart	*108,336*	*55,169*	*53,167*	*96*
Red Mobile[(1)]	*(174)*	*424*	*(598)*	*(141)*
Sun Cellular[(2)]	*171,857*	*–*	*171,857*	*100*
Total	4,903,104	2,100,953	2,802,151	133

(1) *Activations have been discontinued since the fourth quarter of 2011 due to the transfer of the Red Mobile business from CURE to Smart which was completed on June 30, 2012.*

(2) *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 Digitel.*

Prepaid and postpaid subscribers reflected net activations of 4,623,085 and 280,019 subscribers, respectively, in the first nine months of 2012 as compared with net activations of 2,045,360 and 55,593 in the same period in 2011, respectively.

The following table summarizes our average monthly churn rates for the nine months ended September 30, 2012 and 2011:

	2012	2011
	(in %)	
Prepaid		
Smart Prepaid	6.3	5.1
Talk 'N Text	4.3	5.7
Red Mobile	16.2	14.7
Sun Cellular[(1)]	10.2	–
Postpaid		
Smart	2.7	2.3
Red Mobile	11.0	–
Sun Cellular[(1)]	1.0	–

(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 Digitel.*

For *Smart Prepaid* subscribers, the average monthly churn rate in the first nine months of 2012 and 2011 were 6.3% and 5.1%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 4.3% and 5.7% in the first nine months of 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 16.2% and 14.7% in the first nine months of 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers was 10.2% in the first nine months of 2012.

The average monthly churn rate for Smart's postpaid subscribers were 2.7% and 2.3% for the first nine months of 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile's* and *Sun Cellular's* postpaid subscribers were 11.0% and 1.0%, respectively, for the first nine months of 2012.

The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 2012 and 2011:

	Gross[1]		**Increase (Decrease)**		**Net[2]**		**Increase (Decrease)**	
	2012	**2011**	**Amount**	**%**	**2012**	**2011**	**Amount**	**%**
Prepaid								
Smart Prepaid	Php172	Php199	(Php27)	(14)	Php150	Php175	(Php25)	(14)
Talk 'N Text	114	124	(10)	(8)	101	109	(8)	(7)
Red Mobile	61	38	23	61	53	33	20	61
Sun Cellular[3]	76	–	76	100	66	–	66	100
Postpaid								
Smart	1,281	1,581	(300)	(19)	1,264	1,521	(257)	(17)
Red Mobile	361	381	(20)	(5)	361	381	(20)	(5)
Sun Cellular[3]	413	–	413	100	410	–	410	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 Digitel.*

Our average monthly prepaid and postpaid ARPUs per quarter for the first three quarters of 2012 and for each of the four quarters of 2011were as follows:

	Prepaid								**Postpaid**					
	Smart Prepaid		**Talk 'N Text**		**Red Mobile**		**Sun Cellular[1]**		**Smart**		**Red Mobile**		**Sun Cellular[1]**	
	Gross[2]	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**
2012														
First Quarter	178	155	118	104	46	40	75	64	1,302	1,279	339	339	414	411
Second Quarter	172	150	116	103	66	57	76	66	1,277	1,251	368	368	413	411
Third Quarter	167	145	109	95	72	61	78	69	1,264	1,262	375	375	411	408
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 Digitel.*

(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.*

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 Php1,592 million, or 33%, to Php6,435 million in the first nine months of 2012 from Php4,843 million in the same period in 2011, primarily due to the inclusion of DMPI's revenues for the first nine months of 2012 of Php1,430 million and an 8% growth in SBI's broadband subscriber base, partially offset by a decline in SBI's ARPU.

The following table shows information of our wireless broadband subscriber base for the nine months ended September 30, 2012 and 2011:

			Increase	
	2012	**2011**	**Amount**	**%**
Wireless Broadband Subscribers	2,267,430	1,556,633	710,797	46
Postpaid	*751,581*	*449,599*	*301,982*	*67*
Smart Broadband	474,915	449,599	25,316	6
Sun Cellular	276,666	–	276,666	100
Prepaid	*1,515,849*	*1,107,034*	*408,815*	*37*
Smart Broadband	1,210,235	1,107,034	103,201	9
Sun Cellular	305,614	–	305,614	100

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,267,430 subscribers as at September 30, 2012, an increase of 710,797 subscribers, or 46%, as compared with 1,556,633 subscribers as at September 30, 2011, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 305,614 and 276,666, respectively, as at September 30, 2012, and 128,517, or 8%, increase in SBI's broadband subscribers. Our prepaid wireless broadband subscriber base increased by 408,815 subscribers, or 37%, to 1,515,849 subscribers as at September 30, 2012 from 1,107,034 subscribers as at September 30, 2011, while our postpaid wireless broadband subscriber base increased by 301,982 subscribers, or 67%, to 751,581 subscribers as at September 30, 2012 from 449,599 subscribers as at September 30, 2011.

SBI's *SmartBro* fixed wireless broadband service, recently rebranded as *myBro*, is now being offered under PLDT's *Home* megabrand. *myBro* fixed wireless broadband service is powered either via a link to Smart's wireless broadband-enabled base stations which allows subscribers to connect to the internet using an outdoor aerial antenna installed in the subscriber's home or via Smart's WiMAX (Worldwide Interoperability for Microwave Access) network.

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 at varying connectivity speeds in places where there is Smart network coverage provided by either 3G high speed packet access (HSPA), 4G HSPA+ or LTE technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. SBI also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. 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.

DMPI's *Sun Broadband Wireless* is an affordable high-speed broadband wireless service utilizing advanced 3.5G HSPA technology on an all-IP network offering various plans and packages to internet users.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php22 million, or 2%, to Php1,194 million in the first nine months of 2012 from Php1,216 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 Philippines' subscribers and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.56 for the nine months ended September 30, 2012 from Php43.26 for the nine months ended September 30, 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 Php664 million, or 66%, to Php1,672 million in the first nine months of 2012 as compared with Php1,008 million in the same period in 2011, primarily due to the increase in the combined 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 Php378 million for the first nine months of 2012.

Expenses

Expenses associated with our wireless business amounted to Php61,326 million, which includes DMPI's expenses of Php15,049 million, in the first nine months of 2012, an increase of Php17,488 million, or 40%, from Php43,838 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, selling and promotions, interconnection costs, compensation and employee benefits, rent, and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 58% in the first nine months of 2012 and 2011, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 2012 and 2011 and the percentage of each expense item in relation to the total:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php13,276	22	Php10,542	24	Php2,734	26
Interconnection costs	8,858	14	6,884	16	1,974	29
Rent	7,274	12	6,038	14	1,236	20
Repairs and maintenance	5,987	10	3,924	9	2,063	53
Compensation and employee benefits	5,898	9	4,330	10	1,568	36
Cost of sales	5,587	9	2,759	6	2,828	103
Selling and promotions	5,522	9	3,479	8	2,043	59
Professional and other contracted services	2,754	4	2,203	5	551	25
Taxes and licenses	1,891	3	1,172	3	719	61
Communication, training and travel	1,021	2	699	2	322	46
Amortization of intangible assets	1,019	2	81	–	938	1,158
Asset impairment	1,013	2	430	1	583	136
Insurance and security services	696	1	621	1	75	12
Other expenses	530	1	676	1	(146)	(22)
Total	Php61,326	100	Php43,838	100	Php17,488	40

[1] *Includes DMPI's expenses for the first nine months of 2012.*
[2] *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the transfer of PCEV from Wireless to Others' business segment.*

The following table summarizes the breakdown of DMPI's wireless-related expenses for the nine months ended September 30, 2012 and the percentage of each expense item in relation to the total:

	Amount	%
	(in millions)	
Depreciation and amortization	Php4,108	27
Interconnection costs	2,228	15
Repairs and maintenance	2,087	14
Cost of sales	1,741	11
Rent	1,242	8
Selling and promotions	1,187	8
Compensation and employee benefits	1,173	8
Taxes and licenses	418	3
Professional and other contracted services	288	2
Communication, training and travel	268	2
Asset impairment	134	1
Insurance and security services	74	–
Other expenses	101	1
Total	Php15,049	100

Depreciation and amortization charges increased by Php2,734 million, or 26%, to Php13,276 million primarily due to the inclusion of DMPI's depreciation and amortization expenses of Php4,108 million for the first nine months of 2012, partially offset by lower depreciation charges on cellular and broadband network facilities of Smart.

Interconnection costs increased by Php1,974 million, or 29%, to Php8,858 million primarily due to the inclusion of DMPI's interconnection costs of Php2,228 million for the first nine months of 2012, partially offset by a decrease in interconnection charges on Smart's domestic calls and international roaming SMS.

Rent expenses increased by Php1,236 million, or 20%, to Php7,274 million primarily due to the inclusion of DMPI's rent expenses of Php1,242 million for the first nine months of 2012, increase in domestic fiber optic network, or DFON, and office building rental charges, partially offset by a decrease in satellite, leased circuit and site rental charges. In the nine months ended September 30, 2012, we had 10,329 cell sites, 13,510 cellular/mobile broadband base stations and 2,811 fixed wireless broadband-enabled base stations, which includes DMPI's 4,440 cell sites and 2,267 cellular/mobile broadband base stations, as compared with 6,060 cell sites, 10,466 cellular/mobile broadband base stations and 2,748 fixed wireless broadband-enabled base stations in the same period in 2011.

Repairs and maintenance expenses increased by Php2,063 million, or 53%, to Php5,987 million mainly due to the inclusion of DMPI's repairs and maintenance expense of Php2,087 million for the first nine months of 2012, higher site and office electricity charges, and IT hardware and software costs, partly offset by lower maintenance costs on buildings, cellular and broadband network facilities, and central office/telecoms equipment.

Compensation and employee benefits expenses increased by Php1,568 million, or 36%, to Php5,898 million primarily due to the inclusion of DMPI's compensation and employee benefit expenses of Php1,173 million for the first nine months of 2012, as well as higher salaries and employee benefits, LTIP and MRP costs, partially offset by lower provision for pension benefits of Smart. Employee headcount increased to 8,281 as at September 30, 2012 as compared with 5,210 as at September 30, 2011, primarily due to the inclusion of DMPI's headcount of 2,859 as at September 30, 2012.

Cost of sales increased by Php2,828 million, or 103%, to Php5,587 million primarily due to the inclusion of DMPI's cost of sales of Php1,741 million for the first nine months of 2012 and higher average cost and quantity of handsets and SIM-packs issued for activation purposes, partly offset by lower quantity and average cost of broadband modems sold, as well as lower broadband and cellular retention costs.

Selling and promotion expenses increased by Php2,043 million, or 59%, to Php5,522 million primarily due to the inclusion of DMPI's selling and promotions expense of Php1,187 million for the first nine months of 2012 and higher spending on advertising and promotional campaigns, and commissions.

Professional and other contracted service fees increased by Php551 million, or 25%, to Php2,754 million primarily due to the inclusion of DMPI's professional and other contracted service fees of Php288 million for the first nine months of 2012, the increase in consultancy, call center, contracted service, market research, legal fees and outsourced service costs, partly offset by lower technical service and other professional fees.

Taxes and licenses increased by Php719 million, or 61%, to Php1,891 million primarily due to the inclusion of DMPI's taxes and licenses of Php418 million, and higher business-related taxes for the first nine months of 2012.

Communication, training and travel expenses increased by Php322 million, or 46%, to Php1,021 million primarily due to the inclusion of DMPI's communication, training and travel expenses of Php268 million for the first nine months of 2012 and higher expenses related to mailing and courier services, training, and freight and hauling, as well as higher fuel consumption for vehicles.

Amortization of intangible assets increased by Php938 million to Php1,019 million primarily due to the amortization of intangible assets related to customer list and franchise of DMPI in the first nine months of 2012.

Asset impairment increased by Php583 million, or 136%, to Php1,013 million primarily due to higher provision for uncollectible receivables and provision for inventory obsolescence covering slow-moving cellular handsets and broadband modems, as well as the inclusion of DMPI's provision for uncollectible receivables of Php134 million for the first nine months of 2012.

Insurance and security services increased by Php75 million, or 12%, to Php696 million primarily due to the inclusion of DMPI's insurance and security expenses of Php74 million for the first nine months of 2012, and higher insurance and bond premiums, partially offset by Smart's lower expenses on security services.

Other expenses decreased by Php146 million, or 22%, to Php530 million primarily due to lower various business and operational-related expenses, partly offset by the inclusion of DMPI's other operational expenses of Php101 million for the first nine months of 2012.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the nine months ended September 30, 2012 and 2011:

			Change	
	2012	2011[1]	Amount	%
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains – net	Php1,788	Php60	Php1,728	2,880
Interest income	439	517	(78)	(15)
Equity share in net losses of associates	(35)	(51)	16	(31)
Gains (losses) on derivative financial instruments – net	(54)	–	(54)	(100)
Financing costs – net	(1,995)	(2,044)	49	(2)
Others	558	276	282	102
Total	Php701	(Php1,242)	Php1,943	156

(1) The 2011 other income and expenses have been restated to reflect the transfer of PCEV from Wireless to Others' business segment.

Our wireless business' other income amounted to Php701 million, which includes other income from DMPI amounting to Php370 million, in the first nine months of 2012, a change of Php1,943 million, or 156%, as against other expenses of Php1,242 million in the same period in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php1,728 million on account of revaluation of net foreign currency-denominated liabilities due to the appreciation of the Philippine peso to the U.S. dollar, and the inclusion of gains on revaluation of net dollar-denominated liabilities of DMPI of Php919 million for the first nine months of 2012; (ii) an increase in other income by Php282 million mainly due to the inclusion of DMPI's other income of Php22 million, higher consultancy and outsourcing income, and higher recovery of prior year's provision, partially offset by lower rental income; (iii) lower net financing costs by Php49 million primarily due to increase in capitalized interest, and lower interest on loans and other related items of Smart, partly offset by the inclusion of DMPI's financing costs of Php538 million for the first nine months of 2012, higher accretion on financial liabilities and financing charges; (iv) a decrease in equity share in net losses of associates by Php16 million; (v) net loss on derivative financial instruments of Php54 million in the first nine months of 2012 mainly from DMPI; and (vi) a decrease in interest income by Php78 million mainly due to lower average interest rates, lower level and shorter average tenor of U.S. dollar and peso placements in the first nine months of 2012 and the appreciation of the Philippine peso to the U.S. dollar, partially offset by the inclusion of DMPI's interest income of Php20 million.

Provision for Income Tax

Provision for income tax increased by Php246 million, or 3%, to Php7,836 million in the first nine months of 2012 from Php7,590 million in the same period in 2011 primarily due to higher taxable income and expiration of SBI's tax holiday on July 21, 2011. The effective tax rate for our wireless business was 28% and 25% in the first nine months of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php1,982 million, or 9%, to Php20,512 million, including a net income from DMPI of Php824 million, in the first nine months of 2012, from Php22,494 million recorded in the same period in 2011.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php7 million to Php41,942 million in the first nine months of 2012, which includes EBITDA from DMPI of Php4,718 million, from Php41,949 million in the same period in 2011.

Core Income

Our wireless business' core income decreased by Php3,641 million, or 16%, to Php19,291 million in the first nine months of 2012, which includes core income from DMPI amounting to Php218 million for the first nine months of 2012, from Php22,932 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 Php46,157 million, including revenues from Digitel of Php2,514 million, in the first nine months of 2012, an increase of Php1,845 million, or 4%, from Php44,312 million in the same period in 2011.

The following table summarizes our total revenues from our fixed line business for the nine months ended September 30, 2012 and 2011 by service segment:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php12,388	27	Php11,652	26	Php736	6
International long distance	8,012	17	8,430	19	(418)	(5)
National long distance	4,050	9	4,322	10	(272)	(6)
Data and other network	19,031	41	16,975	38	2,056	12
Miscellaneous	2,024	5	2,128	5	(104)	(5)
	45,505	99	43,507	98	1,998	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	652	1	805	2	(153)	(19)
Total Fixed Line Revenues	Php46,157	100	Php44,312	100	Php1,845	4

(1) *Includes Digitel's revenues for the first nine months 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.*

The following table summarizes the revenue contribution of Digitel to our fixed line business for the nine months ended September 30, 2012 by service segment:

	Amount	%
	(in millions)	
Fixed Line Services:		
Service Revenues:		
Local exchange	Php761	30
International long distance	515	21
National long distance	272	11
Data and other network	966	38
Total Fixed Line Revenues	Php2,514	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 Php1,998 million, or 5%, to Php45,505 million in the first nine months of 2012, which includes service revenues from Digitel amounting to Php2,514 million for the first nine months of 2012, from Php43,507 million in the same period in 2011 due to an increase in the revenue contribution of our data and other network, and local exchange services, partially offset by decreases in international and 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 nine months ended September 30, 2012 and 2011:

	2012[1]	2011[2]	Increase Amount	Increase %
Total local exchange service revenues (in millions)	Php12,388	Php11,652	Php736	6
Number of fixed line subscribers	2,127,188	1,868,759	258,429	14
Postpaid	2,010,253	1,775,043	235,210	13
Prepaid	116,935	93,716	23,219	25
Number of fixed line employees	7,811	7,449	362	5
Number of fixed line subscribers per employee	272	251	21	8

(1) *Includes Digitel's revenues, subscriber base and employee headcount as at and for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*

The following table summarizes the key measures of Digitel's local exchange service business as at September 30, 2012 and for the first nine months of 2012:

Total local exchange service revenues (in millions)	Php761
Number of fixed line subscribers	270,503
Postpaid	223,028
Prepaid	47,475
Number of fixed line employees	710
Number of fixed line subscribers per employee	381

Revenues from our local exchange service increased by Php736 million, or 6%, to Php12,388 million in the first nine months of 2012 from Php11,652 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues of Php761 million for the first nine months 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 27% in each of the first nine months of 2012 and 2011.

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

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the nine months ended September 30, 2012 and 2011:

	2012[1]	2011[2]	Increase (Decrease) Amount	Increase (Decrease) %
Total international long distance service revenues (in millions)	Php8,012	Php8,430	(Php418)	(5)
Inbound	6,978	7,547	(569)	(8)
Outbound	1,034	883	151	17
International call volumes (in million minutes, except call ratio)	1,570	1,490	80	5
Inbound	1,218	1,296	(78)	(6)
Outbound	352	194	158	81
Inbound-outbound call ratio	3.5:1	6.7:1	–	–

(1) *Includes Digitel's revenues and call volumes for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*

The following table summarizes the key measures of Digitel's international long distance service business as at September 30, 2012 and for the first nine months of 2012:

Total international long distance service revenues (in millions)	Php515
Inbound	266
Outbound	249
International call volumes (in million minutes, except call ratio)	259
Inbound	53
Outbound	206
Inbound-outbound call ratio	0.3:1

Our total international long distance service revenues decreased by Php418 million, or 5%, to Php8,012 million in the first nine months of 2012, which includes revenues from Digitel amounting to Php515 million, from Php8,430 million in the same period in 2011, primarily due to the decrease in PLDT's call volumes, as well as the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.56 for the nine months ended September 30, 2012 from Php43.26 for the nine months ended September 30, 2011, partially offset by the increase in average collection rate in dollar terms and inclusion of Digitel's international long distance service revenues and call volumes in the first nine months of 2012. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% and 19% in the first nine months of 2012 and 2011, respectively.

Our revenues from inbound international long distance service decreased by Php569 million, or 8%, to Php6,978 million in the first nine months of 2012 from Php7,547 million in the same period in 2011 primarily due to the decrease in inbound call volumes, as well as 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, partially offset by the inclusion of Digitel's inbound international long distance service revenues of Php266 million and inbound call volumes of 53 million minutes for the first nine months of 2012.

Our revenues from outbound international long distance service increased by Php151 million, or 17%, to Php1,034 million in the first nine months of 2012 from Php883 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues from outbound international long distance service of Php249 million and the increase in the average collection rate in dollar terms, partially offset by the decrease in PLDT's outbound call volumes and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.56 for the nine months ended September 30, 2012 from Php43.26 for the nine months ended September 30, 2011, resulting in a decrease in the average billing rates to Php42.79 in the first nine months of 2012 from Php43.37 in the same period in 2011.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2012 and 2011:

			Decrease	
	2012(1)	**2011**(2)	**Amount**	**%**
Total national long distance service revenues (in millions)	Php4,050	Php4,322	(Php272)	(6)
National long distance call volumes (in million minutes)	747	848	(101)	(12)

(1) *Includes Digitel's revenues of Php272 million and call volumes of 32 million minutes for the first nine months of 2012.*
(2) *The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.*

Our national long distance service revenues decreased by Php272 million, or 6%, to Php4,050 million in the first nine months of 2012 from Php4,322 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 nine months of 2012 of Php272 million 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 nine months 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 nine months ended September 30, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
Data and other network service revenues (in millions)	Php19,031	Php16,975	Php2,056	12
Domestic	14,020	12,202	1,818	15
Broadband	*8,681*	*7,239*	*1,442*	*20*
DSL	8,499	7,028	1,471	21
WeRoam	182	211	(29)	(14)
Leased Lines and Others	*5,339*	*4,963*	*376*	*8*
International				
Leased Lines and Others	*4,125*	*3,889*	*236*	*6*
Vitro™ Data Center	886	884	2	–
Subscriber base				
Broadband	*901,601*	*743,182*	*158,419*	*21*
DSL	884,896	725,232	159,664	22
WeRoam	16,705	17,950	(1,245)	(7)
SWUP	*20,838*	*19,490*	*1,348*	*7*

(1) *Includes Digitel's revenues and subscriber base as at and for the nine months ended September 30, 2012.*
(2) *The 2011 results 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.*

The following table shows Digitel's contribution to our data and other network service revenues and subscriber base as at and for the nine months ended September 30, 2012:

Data and other network service revenues (in millions)	Php966
Domestic	946
Broadband – DSL	*593*
Leased Lines and Others	*353*
International	
Leased Lines and Others	*20*
DSL Subscriber base	91,793

Our data and other network services posted revenues of Php19,031 million, which includes revenues from Digitel of Php966 million, in the first nine months of 2012, an increase of Php2,056 million, or 12%, from Php16,975 million in the same period in 2011, primarily due to higher revenues from *PLDT DSL*, the inclusion of Digitel's data and other network service revenues, 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, and an increase in international data revenues primarily due to higher revenues from i-Gate and inland cable lease. The percentage contribution of this service segment to our fixed line service revenues accounted for 42% and 39% in the first nine months of 2012 and 2011, respectively.

Domestic

Domestic data services contributed Php14,020 million in the first nine months of 2012, an increase of Php1,818 million, or 15%, as compared with Php12,202 million in the same period in 2011 mainly due to higher DSL revenues and the inclusion of Digitel's revenues of Php946 million for the first nine months of 2012, higher IP-VPN, Metro Ethernet and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower traditional leased line revenues on Diginet. The percentage contribution of domestic data service revenues to total data and other network services accounted for 74% and 72% in the first nine months of 2012 and 2011, respectively.

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 Php8,681 million, including Digitel's broadband data revenues of Php593 million, in the first nine months of 2012, an increase of Php1,442 million, or 20%, from Php7,239 million in the same period in 2011, primarily due to the higher revenue contribution of DSL which contributed revenues of Php8,499 million in the first nine months of 2012 from Php7,028 million in the same period in 2011 as a result of the increase in the number of subscribers by 22% to 884,896 subscribers, including Digitel's DSL subscriber base of 91,793, as at September 30, 2012, from 725,232 subscribers in the same period in 2011. DSL revenues accounted for 45% and 42% of total data and other network service revenues in the first nine months of 2012 and 2011, respectively.

WeRoam revenues amounted to Php182 million in the first nine months of 2012, a decrease of Php29 million, or 14%, from Php211 million in the same period in 2011 as a result of a decrease in subscriber base by 7% to 16,705 subscribers in the first nine months of 2012 from 17,950 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 September 30, 2012, *SWUP* has a total subscriber base of 20,838 up by 1,348, or 7%, from 19,490 subscribers in the same period in 2011. Leased lines and other data revenues amounted to Php5,339 million in the first nine months of 2012, an increase of Php376 million, or 8%, from Php4,963 million in the same period in 2011, primarily due to the inclusion of Digitel's leased line data revenues of Php353 million for the first nine months of 2012, and higher revenues from IP-VPN, Metro Ethernet and *Shops.Work*, 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 28% and 29% in the first nine months 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 Php236 million, or 6%, to Php4,125 million in the first nine months of 2012 from Php3,889 million in the same period in 2011, primarily due to higher i-Gate, and inland-cable lease revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php20 million for the first nine months of 2012, as well as an increase in revenues from various global service providers, partially offset by 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 22% and 23% in the first nine months 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 Php2 million to Php886 million in the first nine months of 2012 from Php884 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 Php104 million, or 5%, to Php2,024 million in the first nine months of 2012 from Php2,128 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, 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), 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, and higher rental and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues were 4% and 5% in the first nine months of 2012 and 2011, respectively.

Non-service Revenues

Non-service revenues decreased by Php153 million, or 19%, to Php652 million in the first nine months of 2012 from Php805 million in the same period in 2011, primarily due to the lower sale of several managed PABX and *OnCall* solution, hardware and software licenses, and *PLP* units, as well as lower computer-bundled sales, partially offset by the sale of UNO equipments and increase in *Telpad* units sold.

Expenses

Expenses related to our fixed line business totaled Php41,016 million, which includes expenses from Digitel amounting to Php2,455 million, in the first nine months of 2012, an increase of Php5,136 million, or 14%, as compared with Php35,880 million in the same period in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, professional and other contracted services, depreciation and amortization, selling and promotions, rent, taxes and licenses, and communication, training and travel, partly offset by lower expenses related to interconnection costs, cost of sales and amortization of intangible assets. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 89% and 81% in the first nine months of 2012 and 2011, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2012 and 2011 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2012[1]	%	2011[2]	%	Amount	%
			(in millions)			
Compensation and employee benefits	Php10,562	26	Php7,878	22	Php2,684	34
Depreciation and amortization	9,681	24	9,326	26	355	4
Interconnection costs	5,947	14	6,379	18	(432)	(7)
Repairs and maintenance	4,087	10	3,267	9	820	25
Professional and other contracted services	3,085	8	2,584	7	501	19
Rent	2,309	6	2,018	6	291	14
Selling and promotions	1,329	3	990	3	339	34
Taxes and licenses	835	2	637	2	198	31
Cost of sales	794	2	825	2	(31)	(4)
Asset impairment	780	2	745	2	35	5
Communication, training and travel	620	1	474	1	146	31
Insurance and security services	491	1	366	1	125	34
Amortization of intangible assets	–	–	16	–	(16)	(100)
Other expenses	496	1	375	1	121	32
Total	Php41,016	100	Php35,880	100	Php5,136	14

(1) *Includes Digitel's expenses for the first nine months of 2012.*
(2) *The 2011 results 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.*

The following table summarizes the breakdown of Digitel's fixed line-related expenses for the nine months ended September 30, 2012 and the percentage of each expense item to the total:

	Amount	%
	(in millions)	
Compensation and employee benefits	Php615	25
Repairs and maintenance	442	18
Depreciation and amortization	391	16
Interconnection costs	335	14
Rent	207	8
Professional and other contracted services	136	5
Taxes and licenses	83	3
Communication, training and travel	57	2
Cost of Sales	49	2
Selling and promotions	40	2
Asset impairment	42	2
Insurance and security services	39	2
Other expenses	19	1
Total	Php2,455	100

Compensation and employee benefits expenses increased by Php2,684 million, or 34%, to Php10,562 million primarily due to higher MRP costs, salaries and employee benefits, LTIP costs, as well as the effect of the inclusion of Digitel's compensation and employee benefits expenses of Php615 million for the first nine months of 2012, partially offset by lower provision for pension costs. Employee headcount increased to 10,619 in the first nine months of 2012 as compared with 9,290 in the same period in 2011 mainly due to inclusion of Digitel's headcount of 710 and increase in the number of employee headcount of iPlus, partially offset by the decrease in PLDT's headcount as a result of the MRP.

Depreciation and amortization charges increased by Php355 million, or 4%, to Php9,681 million due to the inclusion of Digitel's depreciation and amortization expenses of Php391 million for the first nine months of 2012, as well as a higher depreciable asset base.

Interconnection costs decreased by Php432 million, or 7%, to Php5,947 million primarily due to lower international and national long distance interconnection/settlement costs as a result of lower international received paid and domestic sent paid calls that terminated to other domestic carriers, and lower settlement costs for data and other network services particularly Fibernet and Infonet, partially offset by the inclusion of Digitel's interconnection costs of Php335 million.

Repairs and maintenance expenses increased by Php820 million, or 25%, to Php4,087 million primarily due to the inclusion of Digitel's repairs and maintenance expenses of Php442 million for the first nine months of 2012, higher repairs and maintenance costs for buildings, IT software and central office/telecoms equipment, and higher electricity cost, partially offset by lower repairs and maintenance costs of vehicles, furniture and other work equipments.

Professional and other contracted service expenses increased by Php501 million, or 19%, to Php3,085 million primarily due to higher consultancy and contracted services, professional, management fees, technical service, and payment facility fees, as well as the effect of the inclusion of Digitel's professional and other contracted fees of Php136 million for the first nine months of 2012, partially offset by lower bill printing fees, audit and transfer agents' fees.

Rent expenses increased by Php291 million, or 14%, to Php2,309 million primarily due to the effect of the inclusion of Digitel's rent expenses of Php207 million for the first nine months of 2012, as well as higher international leased circuits, and site rental charges, partially offset by lower domestic leased circuit, office building and equipment rental charges.

Selling and promotion expenses increased by Php339 million, or 34%, to Php1,329 million primarily due to the effect of the inclusion of Digitel's selling and promotions expenses of Php40 million for the first nine months of 2012, as well as higher advertising and public relations expenses, partially offset by lower commissions expense.

Taxes and licenses increased by Php198 million, or 31%, to Php835 million as a result of higher NTC fees and the effect of the inclusion of Digitel's taxes and licenses of Php83 million for the first nine months of 2012, partly offset by lower real property taxes.

Cost of sales decreased by Php31 million, or 4%, to Php794 million primarily due to lower sales of several managed PABX and *OnCall* solutions, hardware and software licenses, and *PLP* units, partially offset by the sale of UNO equipments and *Telpad* units, and the inclusion of Digitel's cost of sales of Php49 million.

Asset impairment increased by Php35 million, or 5%, to Php780 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables of Php42 million for the first nine months of 2012.

Communication, training and travel expenses increased by Php146 million, or 31%, to Php620 million mainly due to higher mailing and courier charges, local training and travel, fuel consumption, and the effect of the inclusion of Digitel's communication, training and travel expenses of Php57 million for the first nine months of 2012, partially offset by a decrease in communication charges.

Insurance and security services increased by Php125 million, or 34%, to Php491 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 Php39 million for the first nine months of 2012.

Amortization of intangible assets amounted to Php16 million in the first nine months 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 Php121 million, or 32%, to Php496 million primarily due to higher various business and operational-related expenses and the inclusion of Digitel's other expenses of Php19 million for the first nine months of 2012.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the nine months ended September 30, 2012 and 2011:

			Change	
	2012	**2011**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php696	Php418	Php278	67
Foreign exchange gains – net	636	42	594	1,414
Equity share in net earnings of associates	114	149	(35)	(23)
Gains (losses) on derivative financial instruments – net	(1,506)	626	(2,132)	(341)
Financing costs – net	(3,159)	(2,697)	(462)	17
Others	1,879	928	951	102
Total	(Php1,340)	(Php534)	(Php806)	151

Our fixed line business' other expenses amounted to Php1,340 million in the first nine months of 2012, an increase of Php806 million, or 151%, from Php534 million in the same period in 2011. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php1,506 million in the first nine months of 2012 as against net gains on derivative financial instruments of Php626 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; (ii) an increase in net financing costs by Php462 million due to higher interest expense on loans and related items, higher financing charges, and the effect of the inclusion of Digitel's financing costs of Php171 million in the first nine months of 2012; (iii) decrease in equity share in net earnings of associates and joint ventures by Php35 million mainly due to the disposal of investment in Philweb Corporation, or Philweb; (iv) an increase in interest income by Php278 million due to a higher average level of investments and the inclusion of Digitel's interest income of Php21 million, partially offset by lower interest rates, shorter average tenor of placements, and the impact of the appreciation of the Philippine peso on dollar placements; (v) increase in net foreign exchange gains by Php594 million due to the inclusion of Digitel's foreign exchange gains of Php90 million in the first nine months of 2012 and on account of foreign exchange revaluation of foreign currency-denominated assets and liabilities due to the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar; and

(vi) an increase in other income by Php951 million mainly due to gain recognized on the first tranche of disposal of investments in Philweb, higher reversal of prior year provisions, higher gain on fixed assets disposal and higher outsourcing income, partially offset by lower pension benefit income recognized by PLDT and lower income from consultancy.

Provision for Income Tax

Provision for income tax, including Digitel's provision for income tax of Php58 million, amounted to Php535 million in the first nine months of 2012, a decrease of Php1,538 million, or 74%, as compared with Php2,073 million in the same period in 2011, primarily due to lower taxable income. The effective tax rates of our fixed line business were 14% and 26% in the first nine months of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php3,266 million in the first nine months of 2012, decreased by Php2,559 million, or 44%, as compared with Php5,825 million in the same period in 2011.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php2,956 million, or 17%, to Php14,822 million in the first nine months of 2012, which includes EBITDA from Digitel of Php450 million, from Php17,778 million in the same period in 2011.

Core Income

Our fixed line business' core income decreased by Php1,284 million, or 26%, to Php3,733 million in the first nine months of 2012, which includes core income from Digitel of Php120 million, from Php5,017 million in the same period in 2011, primarily as a result of an increase in fixed line's operating expenses, partially offset by higher fixed line revenues, lower provision for income tax and lower other expenses.

Business Process Outsourcing

Revenues

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

Our BPO business generated revenues of Php7,270 million in the first nine months of 2012, an increase of Php983 million, or 16%, as compared with Php6,287 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 nine months ended September 30, 2012 and 2011 by service segment:

	2012	%	2011[1]	%	Increase Amount	Increase %
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php4,855	67	Php4,179	66	Php676	16
Customer relationship management	2,415	33	2,108	34	307	15
Total BPO Revenues	Php7,270	100	Php6,287	100	Php983	16

(1) *The 2011 results have been restated to reflect the implementation of the reorganization of ePLDT Group in our business segments.*

Service Revenues

Service revenues generated by our BPO business amounted to Php7,270 million in the first nine months of 2012, an increase of Php983 million, or 16%, as compared with Php6,287 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 Php4,855 million in the first nine months of 2012, an increase of Php676 million, or 16%, from Php4,179 million in the same period in 2011. Dollar-denominated revenues increased by 19% mainly due to higher content services and additional revenues as a result of the 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 and the appreciation of the Philippine peso to the U.S. dollar by approximately 5%. Knowledge processing solutions business revenues accounted for 67% and 66% of total revenues of our BPO business in the first nine months of 2012 and 2011, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In the first nine months 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 Php307 million, or 15%, to Php2,415 million in the first nine months of 2012 from Php2,108 million in the same period in 2011, primarily due to higher domestic sales by 18%, 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 6,171 seats with an average of 3,588 customer service representatives, or CSRs, in the first nine months of 2012, as compared with 6,022 seats with an average of 3,358 CSRs in the same period in 2011. SPi CRM has six customer relationship management sites as at September 30, 2012 and 2011. Customer relationship management business revenues accounted for 33% and 34% of total revenues of our BPO business in the first nine months of 2012 and 2011, respectively.

Expenses

Expenses associated with our BPO business totaled Php6,272 million in the first nine months of 2012, an increase of Php678 million, or 12%, as compared with Php5,594 million in the same period in 2011, primarily due to higher expenses related to compensation and employee benefits, professional and other contracted services, repairs and maintenance, depreciation and amortization, communication, training and travel, selling and promotions, amortization of intangible assets, rent, and taxes and licenses. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 86% and 89% in the first nine months of 2012 and 2011, respectively.

The following table shows the breakdown of our total BPO-related expenses for the nine months ended September 30, 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	Php4,109	65	Php3,767	67	Php342	9
Professional and other contracted services	468	7	349	6	119	34
Depreciation and amortization	347	6	308	5	39	13
Rent	342	5	317	6	25	8
Repairs and maintenance	320	5	277	5	43	16
Communication, training and travel	293	5	256	5	37	14
Amortization of intangible assets	139	2	110	2	29	26
Selling and promotions	57	1	27	–	30	111
Insurance and security services	47	1	44	1	3	7
Taxes and licenses	44	1	31	1	13	42
Asset impairment	–	–	9	–	(9)	(100)
Other expenses	106	2	99	2	7	7
Total	Php6,272	100	Php5,594	100	Php678	12

[(1)] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

Compensation and employee benefits increased by Php342 million, or 9%, to Php4,109 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 2,484, or 17%, to 17,282 in the first nine months of 2012 as compared with 14,798 in the same period in 2011.

Professional and other contracted services increased by Php119 million, or 34%, to Php468 million primarily due to higher consultancy, contracted service, and other professional fees.

Depreciation and amortization increased by Php39 million, or 13%, to Php347 million primarily due to higher depreciable asset base.

Rent expenses increased by Php25 million, or 8%, to Php342 million primarily due to higher office building rental charges, partially offset by lower site rental charges.

Repairs and maintenance expenses increased by Php43 million, or 16%, to Php320 million primarily due to higher office and site electricity charges, and repairs and maintenance costs for vehicles, furniture and other work equipment, and janitorial services, partially offset by lower repairs and maintenance cost of IT software and site facilities.

Communication, training and travel expenses increased by Php37 million, or 14%, to Php293 million primarily due to higher travel and training expenses, and mailing and courier charges, partially offset by lower communication expenses and freight and hauling charges.

Amortization of intangible assets increased by Php29 million, or 26%, to Php139 million primarily due to higher amortization of intangible assets in the first nine months of 2012.

Selling and promotions expenses increased by Php30 million, or 111%, to Php57 million primarily due to higher spending on advertising and promotions, as well as higher commissions expenses.

Insurance and security services increased by Php3 million, or 7%, to Php47 million primarily due to higher expenses on insurance and bond premiums.

Taxes and licenses increased by Php13 million, or 42% to Php44 million due to higher business-related taxes in the first nine months of 2012.

Asset impairment amounted to Php9 million in the first nine months of 2011 primarily due to provision for uncollectible receivables.

Other expenses increased by Php7 million, or 7%, to Php106 million mainly due to higher various business operational-related costs.

Other Income

The following table summarizes the breakdown of our total BPO-related other income for the nine months ended September 30, 2012 and 2011:

			Change	
	2012	**2011[(1)]**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains on derivative financial instruments – net	Php28	Php–	Php28	100
Interest income	11	12	(1)	(8)
Financing costs	(24)	(31)	7	(23)
Foreign exchange gains (losses) – net	(21)	4	(25)	(625)
Others	37	123	(86)	(70)
Total	Php31	Php108	(Php77)	(71)

[(1)] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

Our BPO business' other income amounted to Php31 million, a decrease of Php77 million, or 71%, in the first nine months of 2012 from Php108 million in the same period in 2011, primarily due to the combined effects of the following: (i) a decrease in other income by Php86 million mainly due to the effect of adjustments on derecognition of liabilities in 2011; (ii) increase in net foreign exchange losses by Php25 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2012; (iii) a decrease in interest income by Php1 million due to collection of notes receivable in 2011; (iv) a decrease in financing costs by Php7 million due to payment of contingent liabilities and related interests in 2011 from our knowledge processing solutions business; and (v) net gains on derivative financial instruments of Php28 million in the first nine months of 2012 due to mark-to-market gain from forward foreign exchange contracts.

Provision for Income Tax

Provision for income tax amounted to Php259 million, an increase of Php205 million, or 380%, in the first nine months of 2012 from Php54 million in the same period in 2011, primarily due to higher taxable income in the first nine months 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 nine months of 2012.

Net Income

As a result of the foregoing, our BPO business registered a net income of Php770 million, an increase of Php23 million, or 3%, in the first nine months of 2012 from Php747 million in the same period in 2011.

EBITDA

As a result of the foregoing, our BPO business' EBITDA increased by Php370 million, or 33%, to Php1,484 million in the first nine months of 2012 from Php1,114 million in the same period in 2011.

Core Income

Our BPO business' core income amounted to Php765 million in the first nine months of 2012, an increase of Php106 million, or 16%, as compared with Php659 million in the same period in 2011 mainly as a result of an increase in BPO revenues, partially offset by an increase in BPO-related expenses, higher provision for income tax and a decrease in other income.

Others

Expenses

Expenses associated with our other business segment totaled Php15 million in the first nine months of 2012, an increase of Php6 million, or 67%, as compared with Php9 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 business segment for the nine months ended September 30, 2012 and 2011:

			Change	
	2012	**2011**[1]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,361	Php1,422	(Php61)	(4)
Interest income	42	66	(24)	(36)
Others	2,756	64	2,692	4,206
Total	Php4,159	Php1,552	Php2,607	168

(1) *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

Other income increased by Php2,607 million, or 168%, to Php4,159 million in the first nine months of 2012 from Php1,552 million in the same period in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php2,692 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon of Php2,012 million and preferred dividends from Beacon of Php718 million; (ii) a decrease in equity share in net earnings of associates by Php61 million mainly due to the decrease in PCEV's indirect share in the net earnings of Meralco; and (iii) a decrease in interest income by Php24 million as a result of lower average level of temporary cash investments by our PCEV business.

For the nine months ended September 30, 2012, Meralco's reported and core income amounted to Php13,646 million and Php12,892 million, respectively, as compared with Php9,951 million and Php11,663 million, respectively, in the same period in 2011. These results were primarily due to increases in billed customers and electricity sales volume, partially offset by lower distribution rates in the first nine months 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 Php1,361 million and Php1,451 million, respectively, in the first nine months of 2012, and Php1,422 million and Php1,876 million, respectively, in the same period in 2011.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php4,141 million, an increase of Php2,600 million, or 169%, in the first nine months of 2012 from Php1,541 million in the same period in 2011.

EBITDA

As a result of the foregoing, negative EBITDA from our other business segment increased by negative Php6 million, or 67%, to negative Php15 million in the first nine months of 2012 from negative Php9 million in the same period in 2011.

Core Income

Our other business segment's core income amounted to Php4,231 million in the first nine months of 2012, an increase of Php2,237 million, or 112%, as compared with Php1,994 million in the same period in 2011 mainly as a result of an increase in other income, partially offset by higher expenses.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2012 and 2011, as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2012 and December 31, 2011:

	Nine months ended September 30,	
	2012	**2011**
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php54,822	Php54,987
Net cash used in investing activities	22,765	14,360
Capital expenditures	*19,294*	*14,548*
Net cash used in financing activities	39,125	44,633
Net decrease in cash and cash equivalents	7,423	3,962

	September 30, 2012 (Unaudited)	**December 31, 2011 (As Restated[1])**
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php104,887	Php91,273
Obligations under finance lease	5	7
	104,892	91,280
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	21,030	22,893
Notes payable	858	3,109
Obligations under finance lease maturing within one year	7	7
	21,895	26,009
Total interest-bearing financial liabilities	126,787	117,289
Total equity attributable to equity holders of PLDT	140,916	151,833
	Php267,703	Php269,122
Other Selected Financial Data		
Total assets	Php402,247	Php400,004
Property, plant and equipment	196,027	200,142
Cash and cash equivalents	38,634	46,057
Short-term investments	570	558

(1) The December 31, 2011 comparative information was restated to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation with the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel to the accompanying unaudited consolidated financial statements.

Our consolidated cash and cash equivalents and short-term investments totaled Php39,204 million as at September 30, 2012. Principal sources of consolidated cash and cash equivalents in the first nine months of 2012 were cash flows from operating activities amounting to Php54,822 million, proceeds from availment of long-term debt and notes payable of Php41,449 million, net proceeds from disposal of investment available for sale of Php3,563 million, interest received of Php980 million, proceeds from net assets held for sale of Php919 million and dividends received of Php752 million. These funds were used principally for: (1) dividend payments of Php36,854 million; (2) debt principal and interest payments of Php30,749 million and Php4,195 million, respectively; (3) capital outlays of Php19,294 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php9,728 million; (5) Trust Fund and settlement for redemption of shares of Php5,850 million; (6) net payment of capital expenditures under long-term financing of Php1,992 million; and (7) settlements of derivative financial instruments of Php918 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php33,275 million as at September 30, 2011. Principal sources of consolidated cash and cash equivalents in the first nine months of 2011 were cash flows from operating activities amounting to Php54,987 million, proceeds from availment of long-term debt and notes payable of Php12,569 million, interest received of Php1,032 million, dividends received of Php486 million and net proceeds from disposal of investments of Php245 million. These funds were used principally for: (1) dividend payments of Php41,484 million; (2) debt principal and interest payments of Php11,955 million and Php3,941 million, respectively; (3) capital outlays of Php14,548 million; and (4) settlements of derivative financial instruments of Php475 million.

Operating Activities

Our consolidated net cash flows from operating activities decreased by Php165 million to Php54,822 million in the first nine months of 2012 from Php54,987 million in the same period in 2011, primarily due to lower operating income and lower collection of receivables, partially offset by the inclusion of the Digitel Group's net cash from operating activities for the first nine months of 2012 of Php6,386 million, lower settlement of accounts payable and other various liabilities and lower corporate taxes paid.

Cash flows from operating activities of our wireless business decreased by Php327 million, or 1%, to Php35,621 million in the first nine months of 2012 from Php35,948 million in the same period in 2011, primarily due to lower level of collection of outstanding receivables and higher level of settlement of accounts payable, partially offset by higher operating income and lower corporate taxes paid. Cash flows provided by operating activities of our fixed line business also decreased by Php390 million, or 2%, to Php17,713 million in the first nine months of 2012 from Php18,103 million in the same period in 2011, primarily due to lower operating income and lower collection of receivables, partially offset by lower level of settlement of accounts payable and other liabilities. Conversely, cash flows provided by operating activities of our BPO business in the first nine months of 2012 amounted to Php1,676 million, an increase of Php736 million, or 78%, from Php940 million in the same period in 2011, primarily due to higher operating income and a lower level of settlement of accounts payable and other liabilities, partially offset by a lower level of collection of outstanding receivables.

Investing Activities

Consolidated net cash used in investing activities amounted to Php22,765 million in the first nine months of 2012, including the Digitel Group's net cash used in investing activities of Php646 million, an increase of Php8,405 million, or 59%, from Php14,360 million in the same period in 2011, primarily due to the combined effects of the following: (1) net payment for purchase of investments by Php9,973 million; (2) the increase in capital expenditures by Php4,746 million; (3) lower net proceeds from maturity of short-term investments by Php81 million; (4) the lower proceeds from disposal of property, plant and equipment of Php115 million; (5) net proceeds from disposal of investment available for sale of Php3,563 million in the first nine months of 2012; (6) payment for contingent consideration arising from business acquisition of Php1,910 million in the first nine months of 2011; (7) proceeds from the sale of net assets held for sale of Php919 million; and (8) higher dividends received by Php266 million.

Our consolidated capital expenditures in first nine months of 2012 totaled Php19,294 million, an increase of Php4,746 million, or 33%, as compared with Php14,548 million in the same period in 2011, primarily due to an increase in Smart and its subsidiaries' capital spending and the inclusion of the Digitel Group's capital spending for the first nine months of 2012 of Php676 million, partially offset by the decrease in PLDT's capital spending. Smart and its subsidiaries' capital spending of Php11,166 million in the first nine months 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. PLDT's capital spending of Php6,718 million in the first nine months 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. Digitel's capital spending of Php676 million for the first nine months 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. SPi and its subsidiaries' capital spending of Php325 million in the first nine months of 2012 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php409 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 nine months of 2012 amounted to Php752 million, an increase of Php266 million, or 55%, as compared with Php486 million in the same period in 2011. The dividends received in the first nine months of 2012 were mostly from Beacon and Philweb while dividends received in the same period in 2011 were mostly from Meralco and Philweb.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php39,125 million, including the Digitel Group's net cash used in financing activities for the first nine months of 2012 of Php3,777 million, a decrease of Php5,508 million, or 12% as compared with Php44,633 million in the same period in 2011, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php28,880 million. (2) lower cash dividend payments by Php4,630 million; (3) higher interest payments by Php254 million; (4) higher settlements of derivative financial instruments by Php443 million; (5) higher net settlement of capital expenditures under long-term financing by Php2,715 million; (6) Trust Fund and settlement for redemption of shares of Php5,850 million; and (7) increase in repayments of long-term debt and notes payable by Php18,794 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the nine months ended September 30, 2012 amounted to Php40,892 million and Php557 million, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php27,036 million and Php3,713 million, respectively, in the first nine months of 2012.

Our consolidated long-term debt increased by Php11,751 million, or 10%, to Php125,917 million in the first nine months of 2012 from Php114,166 million on December 31, 2011, largely due to drawings from our term loan facilities, partially offset by debt amortizations and prepayments, and the appreciation of the Philippine peso relative to the U.S. dollar to Php41.74 as at September 30, 2012 from Php43.92 as at December 31, 2011. The long-term debt levels of PLDT and Smart increased by 22% and 1% to Php67,815 million and Php37,502 million, respectively, as at September 30, 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, with final repayment on March 7, 2017. The amount of US$150 million, or Php6,261 million, has been fully drawn and remained outstanding as at September 30, 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, with final repayment on May 30, 2017. The amount of US$25 million, or Php1,044 million, was fully drawn on May 29, 2012 and remained outstanding as at September 30, 2012.

On March 19, 2012, Smart issued Php5,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten-year notes amounting to Php3,590 million. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 96% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 91% payable on March 21, 2022. Proceeds from the issuance of these notes have been used primarily for Smart's debt refinancing and capital expenditures. The aggregate amount of Php5,464 million, net of unamortized debt discount, remained outstanding as at September 30, 2012.

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 on April 12, 2022. The amount of Php2,000 million was fully drawn on April 12, 2012 and remained outstanding as at September 30, 2012.

On March 26, 2012, SPi signed a loan agreement amounting to US$15 million with Security Banking Corporation. Proceeds of the loan were used for working capital requirements. The loan is payable in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The amount of US$14 million, or Php593 million, remained outstanding as at September 30, 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 on July 18, 2017. The amount of Php3,000 million was fully drawn on July 18, 2012 and remained outstanding as at September 30, 2012.

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP 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 initial drawdown date and the balance payable upon maturity on June 27, 2017. The amount of Php2,000 million was fully drawn on June 27, 2012 and remained outstanding as at September 30, 2012.

On May 29, 2012, Smart signed a US$50 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender. The loan is payable over five years in nine equal semi-annual installments with the first installment due on May 29, 2013, with final installment on May 29, 2017. The facility was partially drawn on August 15, 2012 in the amount of US$25 million. The amount of US$24 million, or Php1,013 million, net of unamortized debt discount, remained outstanding as at September 30, 2012.

On June 7, 2012, Smart signed a Php1,000 million term loan facility with LBP to finance capital expenditures for its network upgrade and expansion program. The facility is a five-year loan with annual amortizations equivalent to 1% of the principal amount commencing on the first anniversary of the initial drawdown with the balance of 96% payable upon maturity. The amount of Php1,000 million was fully drawn on August 22, 2012 and remained outstanding as at September 30, 2012.

On June 27, 2012, DMPI signed a Php1,500 million seven-year fixed rate term loan facility with BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The facility has annual amortization payments equivalent to 1% of the outstanding principal amount with the balance payable on June 2019. First availment was made on June 29, 2012 amounting to Php700 million and the balance of Php800 million was subsequently drawn on September 24, 2012. The amount of Php1,500 million remained outstanding as at September 30, 2012.

On July 27, 2012, PLDT issued Php1,500 million seven-year fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. The notes are payable over seven years with an annual amortization of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 29, 2019. Proceeds from the facility were used to finance capital expenditures for network expansion and improvement. The amount of Php1,500 million remained outstanding as at September 30, 2012.

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The facility is payable in full upon maturity on October 9, 2019. There are no amounts outstanding under this facility as at September 30, 2012. The amount of Php200 million was fully drawn on October 9, 2012.

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity. No drawdowns have been made under this facility as at November 6, 2012.

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated September 19, 2012, comprised of Series A 7-year notes amounting to Php4,610 million and Series B 10-year notes amounting to Php4,190 million. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. Proceeds from the facility were used to refinance existing obligations the proceeds of which were used for capital expenditures for network expansion and improvement. The amount of Php8,800 million remained outstanding as at September 30, 2012.

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance and to refinance PLDT's loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The facility is payable in full upon maturity. No drawdowns have been made under the facility as at November 6, 2012.

As a result of the acquisition of Digitel, as discussed in *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel* to the accompanying unaudited consolidated financial statements, 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 September 30, 2012, the outstanding balance of DMPI loans covered by PLDT guarantees is Php17,059 million. There are no outstanding Digitel loans covered by PLDT guarantees as at September 30, 2012.

Approximately Php61,343 million principal amount of our consolidated outstanding long-term debt as at September 30, 2012 is scheduled to mature over the period from 2012 to 2015. Of this amount, Php26,526 million is attributable to PLDT; Php24,442 million to Smart, Php9,947 million to Digitel Group and Php428 million is attributable to SPi.

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 DMPI's debt instruments contain provisions wherein DMPI may be declared in default in case of a change in control in DMPI.

As at September 30, 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 nine months of 2012 amounted to Php36,854 million as compared with Php41,484 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 nine months ended September 30, 2012 and 2011:

Earnings	Date Approved	Date Record	Amount Payable	Per share	Total Declared
				(in millions, except per share amount)	
2011					
Common					
Regular Dividend	August 2, 2011	August 31, 2011	September 27, 2011	Php78.00	Php14,567
Regular Dividend	March 6, 2012	March 20, 2012	April 20, 2012	63.00	13,611
Special Dividend	March 6, 2012	March 20, 2012	April 20, 2012	48.00	10,371
					38,549
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	Various	Various	Various	–	35
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	215
Charged to Retained Earnings					Php38,799
2012					
Common					
Regular Dividend	August 7, 2012	August 31, 2012	September 28, 2012	60.00	Php12,964
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock[(1)]	November 6, 2012	November 20, 2012	December 15, 2012	–	–
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	33
Charged to Retained Earnings					Php12,997

[(1)] *Dividends were 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 September 30, 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 nine months 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 September 30, 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 Php157 million and Php913 million as at September 30, 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 September 30, 2012 and June 30, 2012:

	Fair Values	
	September 30, 2012	June 30, 2012
	(Unaudited) (in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php89	Php78
Unlisted equity securities	5,556	5,553
Investments in debt securities	154	154
Advances and refundable deposits – net of current portion	920	885
Total noncurrent financial assets	6,719	6,670
Current Financial Assets		
Cash and cash equivalents	38,634	31,612
Short-term investments	570	611
Trade and other receivables – net	17,389	16,223
Derivative financial assets	80	62
Current portion of investment in debt securities	376	370
Current portion of advances and refundable deposits	7,934	7,979
Total current financial assets	64,983	56,857
Total Financial Assets	**Php71,702**	**Php63,527**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php112,388	Php107,836
Derivative financial liabilities	3,386	2,425
Customers' deposits	2,126	1,809
Deferred credits and other noncurrent liabilities	17,041	16,188
Total noncurrent financial liabilities	134,941	128,258
Current Financial Liabilities		
Accounts payable	25,042	23,623
Accrued expenses and other current liabilities	48,338	47,291
Interest-bearing financial liabilities	21,895	13,935
Derivative financial liabilities	1,247	90
Dividends payable	891	834
Total current financial liabilities	97,413	85,773
Total Financial Liabilities	**Php232,354**	**Php214,031**

The following table sets forth the amount of consolidated losses recognized for the financial assets and liabilities for the nine months ended September 30, 2012 and for the six months ended June 30, 2012:

	September 30, 2012	June 30, 2012
	(in millions)	
Profit and Loss		
Interest income	Php1,019	Php626
Losses on derivative financial instruments – net	(1,532)	(403)
Accretion on financial liabilities	(795)	(546)
Interest on loans and other related items	(4,678)	(3,150)
Other Comprehensive Income		
Net fair value gains on cash flow hedges	1,260	38
Net gains on available-for-sale financial assets – net of tax	16	3
	(Php4,710)	**(Php3,432)**

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 nine months of 2012 and 2011 was 3.2% and 4.3%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

Divestment of CURE

On October 26, 2011, PLDT received the Order issued by the NTC approving the application jointly filed by PLDT and Digitel for the sale and transfer of initially approximately 51.6% of the outstanding capital stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE will sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets. There will be a nine-month transition period to effect this first requirement; and
- 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 and related permits, or the Divestment Sale.

In compliance with the commitments in the divestment plan, CURE completed the sale and transfer of its *Red Mobile* business to Smart on June 30, 2012 for a total consideration of Php18 million through a series of transactions, which included: (a) the sale of CURE's *Red Mobile* trademark to Smart; (b) the transfer of CURE's existing *Red Mobile* subscriber base to Smart; and (c) the sale of CURE's fixed assets to Smart at net book value.

In a letter dated July 26, 2012, Smart informed the NTC that it has complied with the terms and conditions of the divestment plan as CURE had rearranged its assets, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, its only remaining assets as at June 30, 2012 are its congressional franchise, the 10 MHz 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through a sale of CURE's shares of stock to the winning bidder. Smart also submitted CURE's audited financial statements as at June 30, 2012 to the NTC.

Mandatory Tender Offer in connection with the Digitel Acquisition

Under the SRC, PLDT is required to conduct a mandatory tender offer for all the remaining Digitel shares held by the noncontrolling shareholders, in connection with PLDT's acquisition of initially approximately 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 noncontrolling 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 noncontrolling 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 2,518 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.

Conversion of Exchangeable Bonds

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. 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 was subject to the approval of the Philippine SEC of the increase in the authorized capital stock of Digitel, which approval was obtained on September 11, 2012.

As a result of the tender offer, the exchanges described above and PLDT's purchase of Digitel common shares from the open market, PLDT holds 99.5% of the outstanding capital of Digitel as at September 30, 2012.

Digitel's Voluntary Delisting

On January 25, 2012, Digitel filed a petition for voluntary delisting of its shares with the Philippine Stock Exchange, or 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 the Digitel shares were delisted and ceased to be tradable on the PSE effective March 26, 2012.

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 PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors created a special committee to review and evaluate the tender offer to be made by Smart, as the owner of 99.5% of the outstanding common shares of PCEV, to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. The tender offer ended on April 18, 2012, with approximately 25.1 million shares or 43.4% of PCEV's noncontrolling shares tendered and Smart increasing ownership to 99.7% of PCEV's outstanding common stock. On April 25, 2012, the PSE approved the petition for voluntary delisting and PCEV's shares were delisted and ceased to be tradable on the PSE effective May 18, 2012.

Decrease in PCEV's Authorized Capital Stock/Increase in Par Value of PCEV's Common Stock

Following the voluntary delisting of the shares of Common Stock of PCEV from the PSE on May 18, 2012, the Board of Directors and stockholders of PCEV approved on June 6, 2012 and July 31, 2012, respectively, the following: (1) the decrease in the authorized capital stock of PCEV from Php12,800 million, divided into three classes: 12,060 million shares of Common Stock with a par value of Php1.00 each; 120 million shares of Class I Preferred Stock with a par value of Php2.00 each; and 500 million shares of Class II Preferred Stock with a par value of Php1.00 each, to Php12,177 million, divided into three classes: 574 thousand shares of Common Stock with a par value of Php21,000.00

each; 33 million shares of Class I Preferred Stock with a par value of Php2.00 each; and 50 million shares of Class II Preferred Stock with a par value of Php1.00 each (the "Decrease in Authorized Capital Stock"); and (2) the amendments to the Seventh Article of the Articles of Incorporation of PCEV (the "Seventh Article") consisting of the following: (1) decrease in the amount of the authorized capital stock from Php12,800 million to Php12,177 million; (2) increase in the par value of shares of Common Stock from Php1.00 to Php21,000.00 per share and decrease in the number of shares of Common Stock into which a portion of the authorized capital stock is divided from 12,060 million to 574 thousand shares; and (3) decrease in the number of shares of Preferred Stock into which a portion of the authorized capital stock is divided from 120 million to 33 million shares of Class I Preferred Stock and from 500 million to 50 million shares of Class II Preferred Stock (the "Amendments to the Articles"). The Decrease in Authorized Capital Stock and Amendments to the Articles were approved by the Philippine SEC on October 8, 2012 (the "Effective Date").

As a result of the increase in the par value of the shares of PCEV Common Stock, each multiple of 21,000 shares of PCEV Common Stock, with a par value of Php1.00 per share prior to the Effective Date, will be reduced to one share, with a par value of Php21,000.00. Shareholdings of less than 21,000 shares of PCEV Common Stock (the "Residual Shares") which may not be replaced with a fractional share will be paid the fair value of such Residual Shares equivalent to Php4.50 per share.

Consequently, on the Effective Date, the number of outstanding shares of Common Stock of PCEV shall decrease to around 556 thousand from 11,683 million (exclusive of treasury shares) and the number of holders of such shares shall decrease from 19,742 to around 110 (the "Remaining Stockholders"), with only three Remaining Stockholders holding 100 or more shares each.

Additional Investment of PCEV in Beacon/PCEV's Sale of Beacon's Preferred Shares

On January 20, 2012, PCEV and Beacon entered into a Subscription Agreement for the subscription by PCEV to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, Metro Pacific Investments Corporation, or MPIC, also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

On June 6, 2012, PCEV sold 282.2 million of its Beacon preferred shares to MPIC for a total consideration of Php3,563 million. PCEV realized a proportionate deferred gain amounting to Php2,012 million upon sale of the preferred shares to MPIC.

PLDT's Creation of Voting Preferred Stock

On June 5, 2012, the Philippine SEC 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, or Qualified Owners. 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. These amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) 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; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for, or purchase, any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

As at September 30, 2012, none of the Voting Preferred Stock has been issued. On October 15, 2012, PLDT and BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the benefit plan of PLDT (the "Subscriber"), executed a Subscription Agreement pursuant to which PLDT agreed to issue to the Subscriber 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share, or a total subscription price of Php150 million. Said shares were issued upon full payment of the total subscription price on October 16, 2012. The Board of Directors of PLDT authorized such subscription and issuance of Voting Preferred Shares to the Subscriber in its meeting held on October 12, 2012. See "— Matters Relating to Gamboa Case" below and *Note 26 – Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further discussion.

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 Series A to FF 10% Cumulative Convertible Preferred Stock, 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 has set aside Php5.9 billion (the amount required to fund the redemption price for the SIP Preferred Shares) in addition to the Php2.3 billion funds from unclaimed dividends on SIP Preferred Shares, or the total amount of Php8.2 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 the Redemption Trust Fund or any balance thereof, in trust, for the benefit of Holders of 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.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to the Php63 thousand from unclaimed dividends on Series GG Shares, or the total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with Rizal Commercial Banking Corporation, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php237 million was withdrawn from the Trust Account, representing total payments on redemption as at September 30, 2012. The balance of the Trust Account of Php7,926 million was presented as part of the 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 September 30, 2012.

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

See *Note 19 – Equity, Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

DMPI's Equity Restructuring

On April 12, 2012, the Board of Directors of Digitel and DMPI approved the following: (1) the conversion of Digitel's deposit for future stock subscription to DMPI of Php17,665 million and a portion of Digitel's advances to DMPI in the amount of Php13,767 million into additional shares of stock at a premium which resulted in an additional paid-in capital, or APIC, of Php30,909 million; and (2) the application of the adjusted APIC, which is comprised of the APIC from the conversion of advances into equity, as discussed in item (1), and the outstanding APIC of Php34 million, against the deficit of Php30,943 million as at December 31, 2011.

On June 19, 2012, the Philippine SEC approved DMPI's equity restructuring, which involved the application of DMPI's APIC in item (2) above against the deficit as at December 31, 2011.

Digitel's Equity Restructuring

On April 12, 2012, the Board of Directors of Digitel approved the following: (a) the amendment of Digitel's Articles of Incorporation to increase its authorized capital stock from 25 billion shares to 29.5 billion shares with a par value of Php1.00 per share in preparation for the exchange of the remaining 2014 Zero Coupon Exchangeable Bonds issued by DCPL into Digitel shares; (b) the subsequent amendment of Digitel's Articles of Incorporation to decrease its authorized and subscribed capital stock through the reduction in par value to create APIC; and (c) the application of Digitel's adjusted APIC against the deficit of Php34.5 billion as at April 30, 2012. Subsequently, on June 28, 2012, the Digitel shareholders ratified these changes in the authorized capital stock. On September 11, 2012, the Philippine SEC approved the above transactions.

Corporate Merger of MSSI and ePLDT

In April 2012, the Board of Directors of MSSI and ePLDT approved the plan of merger of MSSI and ePLDT, with ePLDT as the surviving company, in order to realize economies in operation and achieve greater efficiency in the management of their business. The merger was approved by two-thirds vote of MSSI and ePLDT's stockholders on April 13, 2012 and April 27, 2012, respectively. On June 11, 2012, the Philippine SEC approved the plan and articles of merger. The merger has no impact on the unaudited consolidated financial statements of the PLDT Group.

Investment in PDRs of MediaQuest

On May 8, 2012, the PLDT Board of Directors approved a Php6 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 has investments in Associated Broadcasting Company Development Corporation, or TV5, and Mediascape, Inc., or 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 345 thousand subscribers as at September 30, 2012. 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 from a traditional telecommunications business 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 in terms of creation of content for delivery across the PLDT Group's various platforms.

ePLDT made a deposit for future stock subscription of Php4 billion in MediaQuest as at June 30, 2012. An additional deposit of Php1 billion each was made on July 6, 2012 and August 9, 2012.

Mediaquest will file for an increase in authorized capital stock with the Philippine SEC once the necessary documentation has been completed.

See *Note 10 – Investments in Associates and Joint Ventures and Deposit for Future Stock Subscription* to the accompanying unaudited consolidated financial statements for further discussion.

ePLDT's Sale of Investment in Philweb

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of ePLDT's 27% interest in Philweb, an Internet-based online gaming company. The sale of the 398 million common shares will be executed in four tranches, which will be completed by the end of 2013. The first tranche, which was transacted on July 13, 2012, and the second tranche, which will be paid on December 12, 2012, are both for 93.5 million common shares, and each tranche for a total purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million. The third tranche will be paid on June 13, 2013 for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the third tranche. The fourth tranche will be paid on December 13, 2013 for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from the actual date of payment of the second tranche to the actual date of payment of the fourth tranche.

On October 17, 2012, a Supplement to the Share Purchase Agreement was entered into wherein Philweb designated its wholly-owned subsidiary, Philweb Casino Corporation, or PCC, to act as the buyer of the second to fourth tranches and to make the second to fourth payments.

Subsequently, on October 18, 2012, a Second Supplement to the Share Purchase Agreement was agreed upon between Philweb, ePLDT and PCC, wherein Philweb notified ePLDT of its desire to exercise its option to accelerate the second tranche from December 12, 2012 to October 18, 2012, or one day after the PSE approves the special block sale, whichever is later. The acquisition of the second tranche was completed on October 22, 2012.

See *Note 10 – Investments in Associates and Joint Ventures and Deposit for Future Stock Subscription* to the accompanying unaudited consolidated financial statements for further discussion.

ePLDT's Acquisition of IP Converge Data Services, Inc.

On October 12, 2012, ePLDT and IP Ventures, Inc. entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IP Converge Data Services, Inc., or IPCDSI, and advances to IPCDSI. The total acquisition cost is between Php700 million to Php800 million, depending on the achievement of certain financial targets for IPCDSI for full year 2012. The final purchase price will be determined upon issuance of the audited financial statements of IPCDSI for 2012. IPCDSI owns and operates two internet data centers in the country and provides enterprises with managed data services and cloud-based business solutions across a wide range of industries including IT solutions providers, gaming companies, e-learning and healthcare. IPCDSI is the country's first and only Salesforce.com Cloud Alliance Partner providing Salesforce CRM licenses and consulting services to businesses. In addition, IPCDSI is also the country's premier Google Enterprise Partner, allowing local organizations to adopt a cloud computing mindset and to ThinkOutCloud™.

See *Note 2 – Summary of Significant Accounting Policies* to the accompanying unaudited consolidated financial statements for further discussion.

Matters Relating to Gamboa Case

On June 28, 2011, the Supreme Court of the Philippines promulgated a Decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. Al. (G.R. No. 176579)* (the "Gamboa Case"), where the Court held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". The Decision of the Supreme Court reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60% to 40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution. Several Motions for Reconsideration of the decision were filed by the parties.

While PLDT is not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in Philippine Long Distance Telephone Company, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

Nonetheless, 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 into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or Amendments to the Articles. The Amendments to the Articles were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 9, 2012, the Supreme Court denied with finality the Motions for Reconsideration filed by the parties to the case.

On October 12, 2012, the Board of Directors approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT, or Subscriber. On October 15, 2012, PLDT and the Subscriber executed a Subscription Agreement pursuant to which the Subscriber subscribed for 150 million shares of the Voting Preferred Stock at a subscription price of Php1.00 per share, or a total subscription price of Php150 million. PLDT issued the said shares to BTFHI upon full payment of the subscription price on October 16, 2012. As a result of the issuance of the shares of Voting Preferred Stock, PLDT's foreign ownership has decreased from 58.4% of outstanding common shares as at October 15, 2012 to 34.5% of outstanding voting shares (Common Stock and Voting Preferred Stock) as at October 16, 2012.

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 I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at September 30, 2012:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php12,303	Php2,288	Php894	Php267	Php8,854
Corporate subscribers	10,187	1,859	1,064	648	6,616
Foreign administrations	6,541	1,279	1,865	925	2,472
Domestic carriers	1,439	264	142	120	913
Dealers, agents and others	2,829	1,764	144	238	683
Total	Php33,299	Php7,454	Php4,109	Php2,198	Php19,538
Less: Allowance for doubtful accounts	15,910				
Total Receivables - net	**Php**17,389				

ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at September 30, 2012 and 2011:

	2012	2011
Current Ratio(1)	0.61:1.0	0.64:1.0
Debt to Equity Ratio(2)	1.85:1.0	2.09:1.0
Asset to Equity Ratio(3)	2.85x	3.09x
Interest Coverage Ratio(4)	8.52x	9.47x
Profit Margin Ratio(5)	0.22x	0.27x
Return on Assets(6)	0.07x	0.11x
EBITDA Margin(7)	46%	54%

(1) Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)
(2) Debt to equity ratio is measured as total liabilities divided by total equity.
(3) Asset to equity ratio is measured as total assets divided by total equity.
(4) Interest coverage ratio is measured by EBIT, or earnings before interest and taxes, divided by total financing cost
(5) Profit margin ratio is derived by dividing net income with total revenues.
(6) Return on assets is derived by dividing net income with total assets.
(7) EBITDA margin for the period is measured as EBITDA divided by service revenues.
EBITDA for the period is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses).

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first nine months 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: November 6, 2012