SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-C

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2012

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

March 5, 2013

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-C with Management's Discussion and Analysis and accompanying audited consolidated financial statements as at and for the year ended December 31, 2012.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG. MAKATI AVE. MAKATI CITY

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

MS. JUNE CHERYL A. CABAL-REVILLA
Contact Person

816-8534
Company Telephone Number

1	2		3	1

Month Day
Fiscal Year

SEC FORM 17-C
FORM TYPE

0	6	Every 2nd Tuesday

Month Day
Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

12,152 As of January 31, 2013	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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

1. March 5, 2013
   Date of Report (Date of earliest event reported)

2. SEC Identification Number PW-55

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

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

5. PHILIPPINES
   Province, country or other jurisdiction of Incorporation

6. ____________ (SEC Use Only)
   Industry Classification Code

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	216,055,775 (1)
Amount of Debt Outstanding	Php115,792 million as at December 31, 2012

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

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 and related notes (pages F-1 to F-149) are filed as part of this report on Form 17-C.

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

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (please see Note 2 – Summary of Significant Accounting Policies to the accompanying audited 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 audited consolidated financial statements and the related notes. Our audited 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 audited 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 audited consolidated financial statements were made based on the exchange rate of Php41.08 to US$1.00, the volume weighted average exchange rate as at December 31, 2012 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, actual results may differ materially from any forward-looking statement made 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)	Years Ended December 31, 2012 Continuing	2012 Discontinued[2]	2012 Consolidated	2011[1] Continuing	2011[1] Discontinued[2]	2011[1] Consolidated	Increase (Decrease) Continuing	Increase (Decrease) Discontinued	Increase (Decrease) Consolidated
Consolidated Income Statement									
Revenues	Php163,484	Php9,142	Php172,626	Php148,479	Php8,124	Php156,603	Php15,005	Php1,018	Php16,023
Expenses	124,023	8,162	132,185	106,102	7,280	113,382	17,921	882	18,803
Other income (expenses)	3,292	108	3,400	(649)	105	(544)	3,941	3	3,944
Income before income tax	42,753	1,088	43,841	41,728	949	42,677	1,025	139	1,164
Net income for the year	34,741	660	35,401	30,806	831	31,637	3,935	(171)	3,764
Net income attributable to equity holders of PLDT:									
Reported net income	34,794	660	35,454	30,866	831	31,697	3,928	(171)	3,757
Core income	36,665	668	37,333	38,282	753	39,035	(1,617)	(85)	(1,702)
EBITDA	75,632	1,626	77,258	78,547	1,412	79,959	(2,915)	214	(2,701)
EBITDA margin[3]	48%	47%	46%	55%	52%	52%			
Reported earnings per common share:									
Basic	160.80	3.06	163.86	158.90	4.34	163.24	1.90	(1.28)	0.62
Diluted	160.80	3.06	163.86	158.77	4.33	163.10	2.03	(1.27)	0.76
Core earnings per common share[4]:									
Basic	169.47	3.09	172.56	197.65	3.93	201.58	(28.18)	(0.84)	(29.02)
Diluted	169.47	3.09	172.56	197.48	3.93	201.41	(28.01)	(0.84)	(28.85)

	As at and For The Years Ended December 31, 2012	2011[5]	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position[5]				
Total assets	Php410,468	Php399,822	Php10,646	3
Property, plant and equipment – net	200,078	200,142	(64)	–
Cash and cash equivalents and short-term investments	37,735	46,615	(8,880)	(19)
Total equity attributable to equity holders of PLDT	149,060	151,833	(2,773)	(2)
Notes payable and long-term debt, including current portion	115,792	117,275	(1,483)	(1)
Net debt[6] to equity ratio	0.52x	0.47x	–	–
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	80,370	79,209	1,161	1
Net cash used in investing activities	39,058	29,712	9,346	31
Capital expenditures	*36,396*	*31,207*	*5,189*	*17*
Net cash used in financing activities	48,628	40,204	8,424	21
Operational Data				
Number of cellular subscribers	69,866,458	63,696,629	6,169,829	10
Number of fixed line subscribers	2,063,794	2,166,295	(102,501)	(5)
Number of broadband subscribers:	3,262,884	2,928,369	334,515	11
Fixed Line	*903,860*	*859,960*	*43,900*	*5*
Wireless	*2,359,024*	*2,068,409*	*290,615*	*14*
Number of employees:	36,740	34,116	2,624	8
Fixed Line	*10,462*	*11,409*	*(947)*	*(8)*
Wireless	*8,513*	*8,043*	*470*	*6*
Business Process Outsourcing	*17,765*	*14,664*	*3,101*	*21*

Exchange Rates – per US$	**Year-end rates**	**Weighted average rates for the year ended December 31**
December 31, 2012	Php41.08	Php42.24
December 31, 2011	43.92	43.31
December 31, 2010	43.81	45.12

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(1) *The December 31, 2011 comparative information was adjusted to reflect the discontinued operations of the Business Process Outsourcing, or BPO, segment. See "– Discontinued Operations" discussion in the succeeding page and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations to the accompanying audited consolidated financial statements for further discussion.*

(2) *Represents BPO segment net of intercompany transactions.*

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

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

(5) *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 audited consolidated financial statements for further discussion.*

(6) *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).*

Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as a disposal group held-for-sale and discontinued operations. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had a plan to sell the BPO segment and had entered into preliminary negotiations with a potential buyer. Should negotiations with the party not lead to a sale, a number of other potential buyers have been identified; and (3) the Board of Directors expect negotiations to be finalized and the sale to be completed by the first quarter of 2013. Thus, we adjusted the comparative consolidated income statement for the year ended December 31, 2011 to present the results of operations of our BPO business as discontinued operations.

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, SPi Global to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business is expected to be completed by March 2013, after satisfaction of agreed closing conditions. PLDT will reinvest some of the proceeds from the sale into AOGL and continue to participate in the growth of the business as a partner of CVC with an approximate 20% stake.

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 Philippines, Inc., or Digitel, 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 13% 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, IP Converge Data Services, Inc., or IPCDSI, ABM Global Solutions, 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);

- *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 audited consolidated financial statements.

On October 26, 2011, we acquired the Digitel Group with the following primary effects on our operating segments; (i) addition of DMPI to our wireless business: and (ii) 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.

On July 5, 2011, our Board of Directors approved 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 December 31, 2012, our chief operating decision maker, or our Management Committee, views our business activities in four business units: Wireless, Fixed Line, BPO and Others. The BPO business unit was classified as disposal group held-for-sale and discontinued operation. See “Financial Highlights and Key Performance Indicators – Discontinued Operations” section in the previous page and *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management’s Use of Accounting Judgments, Estimates and Assumptions* to the accompanying audited consolidated financial statements for further discussion. The remaining ICT businesses, which do not form part of our BPO, were reclassified into our fixed line segment.

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

Core Income

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

Management's Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2012 and 2011 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2012 and 2011:

	2012			2011		
	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
	(in millions)					
Consolidated EBITDA	Php75,632	Php1,626	Php77,258	Php78,547	Php1,412	Php79,959
Foreign exchange gains (losses) – net	3,282	(39)	3,243	(735)	(9)	(744)
Equity share in net earnings of associates and joint ventures	1,538	–	1,538	2,035	–	2,035
Interest income	1,354	16	1,370	1,357	15	1,372
Amortization of intangible assets	(921)	(180)	(1,101)	(117)	(147)	(264)
Gains (losses) on derivative financial instruments – net	(2,009)	28	(1,981)	201	(4)	197
Asset impairment	(2,896)	–	(2,896)	(8,514)	(3)	(8,517)
Financing costs – net	(6,876)	(24)	(6,900)	(6,454)	(37)	(6,491)
Depreciation and amortization	(32,354)	(466)	(32,820)	(27,539)	(418)	(27,957)
Other income	6,003	127	6,130	2,947	140	3,087
Consolidated income before income tax	42,753	1,088	43,841	41,728	949	42,677
Provision for income tax	(8,012)	(428)	(8,440)	(10,922)	(118)	(11,040)
Consolidated net income	Php34,741	Php660	Php35,401	Php30,806	Php831	Php31,637

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

	2012			2011		
	Continuing Operations	Discontinued Operations	Consolidated	Continuing Operations	Discontinued Operations	Consolidated
	(in millions)					
Consolidated core income	Php36,665	Php668	Php37,333	Php38,282	Php753	Php39,035
Foreign exchange gains (losses) – net	3,282	(39)	3,243	(741)	(9)	(750)
Core income adjustment on equity share in net earnings of associates and joint ventures	(91)	–	(91)	(476)	–	(476)
Gains (losses) on derivative financial instruments – net, excluding hedge cost	(1,689)	28	(1,661)	564	(4)	560
Asset impairment	(2,896)	–	(2,896)	(8,514)	(3)	(8,517)
Others	–	–	–	143	90	233
Net tax effect of aforementioned adjustments	(477)	3	(474)	1,608	4	1,612
Net income attributable to equity holders of PLDT	34,794	660	35,454	30,866	831	31,697
Net loss attributable to noncontrolling interests	(53)	–	(53)	(60)	–	(60)
Consolidated net income	Php34,741	Php660	Php35,401	Php30,806	Php831	Php31,637

See "Financial Highlights and Key Performance Indicators – Discontinued Operations" section and *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* to the accompanying audited consolidated financial statements for further discussion on the discontinued operation of our BPO business.

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 years ended December 31, 2012 and 2011. In each of the years ended December 31, 2012 and 2011, we generated a majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated
			(in millions)			
For the years ended December 31, 2012						
Revenues	Php119,592	Php62,490	Php9,899	Php–	(Php19,355)	Php172,626
Expenses	87,961	55,555	8,478	18	(19,827)	132,185
Other income (expenses)	931	(1,553)	136	4,358	(472)	3,400
Income before income tax	32,562	5,382	1,557	4,340	–	43,841
Provision for (benefit from) income tax	8,094	(89)	428	7	–	8,440
Net income/Segment profit	24,468	5,471	1,129	4,333	–	35,401
EBITDA	54,433	20,304	2,067	(18)	472	77,258
EBITDA margin[(1)]	46%	33%	21%	–	–	46%
Core income	25,685	6,087	1,137	4,424	–	37,333
For the years ended December 31, 2011						
Revenues	103,538	60,006	8,588	–	(15,529)	156,603
Expenses	71,049	50,620	7,598	11	(15,896)	113,382
Other income (expenses)	(1,694)	(593)	112	1,998	(367)	(544)
Income before income tax	30,795	8,793	1,102	1,987	–	42,677
Provision for income tax	8,429	2,491	118	2	–	11,040
Net income/Segment profit	22,366	6,302	984	1,985	–	31,637
EBITDA	55,393	22,675	1,558	(11)	344	79,959
EBITDA margin[(1)]	54%	39%	18%	–	–	52%
Core income	29,903	5,765	906	2,461	–	39,035

Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Revenues	Php16,054	16	Php2,484	4	Php1,311	15	Php–	–	(Php3,826)	25	Php16,023	10
Expenses	16,912	24	4,935	10	880	12	7	64	(3,931)	25	18,803	17
Other income (expenses)	2,625	155	(960)	162	24	21	2,360	118	(105)	29	3,944	725
Income before income tax	1,767	6	(3,411)	(39)	455	41	2,353	118	–	–	1,164	3
Provision for (benefit from) income tax	(335)	(4)	(2,580)	(104)	310	263	5	250	–	–	(2,600)	(24)
Net income/Segment profit (loss)	2,102	9	(831)	(13)	145	15	2,348	118	–	–	3,764	12
EBITDA	(960)	(2)	(2,371)	(10)	509	33	(7)	64	128	37	(2,701)	(3)
Core income	(4,218)	(14)	322	6	231	25	1,963	80	–	–	(1,702)	(4)

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

On a Consolidated Basis

We reported consolidated revenues, including revenues from discontinued operations, of Php172,626 million in 2012, an increase of Php16,023 million, or 10%, as compared with Php156,603 million in 2011, primarily due to an increase in our service revenues by Php15,373 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 revenues from our BPO business, partially offset by lower revenues from international and national 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 years ended December 31, 2012 and 2011:

	2012(1)	%	2011(2)	%	Change Amount	Change %
			(in millions)			
Wireless	Php119,592	69	Php103,538	66	Php16,054	16
Fixed line	62,490	36	60,006	38	2,484	4
BPO	9,899	6	8,588	6	1,311	15
Inter-segment transactions	(19,355)	(11)	(15,529)	(10)	(3,826)	25
Consolidated	Php172,626	100	Php156,603	100	Php16,023	10

(1) *Includes the Digitel Group's revenue contribution of Php22,812 million for the full year 2012.*
(2) *Includes the Digitel Group's revenue contribution of Php3,845 million for the period from October 26, 2011 to December 31, 2011.*

Consolidated expenses, including expenses from discontinued operations, increased by Php18,803 million, or 17%, to Php132,185 million in 2012 from Php113,382 million in 2011, largely as a result of higher expenses related to compensation and employee benefits, depreciation and amortization, cost of sales, repairs and maintenance, rent, selling and promotions, amortization of intangible assets, communication, training and travel, professional and other contracted services, and insurance and security, partly offset by lower asset impairment, interconnection costs, taxes and licenses, and other operating expenses.

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

	2012(1)	%	2011(2)	%	Change Amount	Change %
			(in millions)			
Wireless	Php87,961	67	Php71,049	63	Php16,912	24
Fixed line	55,555	42	50,620	44	4,935	10
BPO	8,478	6	7,598	7	880	12
Others	18	–	11	–	7	64
Inter-segment transactions	(19,827)	(15)	(15,896)	(14)	(3,931)	25
Consolidated	Php132,185	100	Php113,382	100	Php18,803	17

(1) *Includes the Digitel Group's expenses of Php24,897 million for the full year 2012.*
(2) *Includes the Digitel Group's expenses of Php3,785 million for the period from October 26, 2011 to December 31, 2011.*

Consolidated other income, including other income from discontinued operations, amounted to Php3,400 million in 2012, a change of Php3,944 million as against other expenses of Php544 million in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php3,987 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 an increase in Digitel Group's gain on revaluation of dollar-denominated net liabilities in 2012; (ii) an increase in other income by Php3,043 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 and second tranches of disposal of Philweb shares, an increase in the Digitel Group's other income, higher net gain on fixed assets disposal and the reversal of prior year's provisions, partially offset by lower pension benefit income recognized by PLDT; (iii) lower interest income by Php2 million due to a lower average interest rate and lower average level of peso investments, effect of appreciation of the Philippine peso relative to the U.S. dollar and shorter average tenor of placements, partly offset by the higher average level of dollar investments; (iv) an increase in net financing costs by Php409 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 2012; (v) net decrease in equity share in net earnings of associates and joint ventures by Php497 million; and (vi) net losses on derivative financial instruments of Php1,981 million in 2012 as against net gains on derivative financial instruments of Php197 million in 2011 mainly due to the effect of narrower U.S. dollar and Philippine peso interest rate differentials and higher level of appreciation of the Philippine peso relative to the U.S. dollar in 2012 on principal-only swap transactions of PLDT and the increase in mark-to-market loss on interest rate swap contracts of DMPI in 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 years ended December 31, 2012 and 2011:

	2012[1]	%	2011[2]	%	Change Amount	Change %
	(in millions)					
Wireless	Php931	27	(Php1,694)	311	Php2,625	155
Fixed line	(1,553)	(45)	(593)	109	(960)	162
BPO	136	4	112	(20)	24	21
Others	4,358	128	1,998	(367)	2,360	118
Inter-segment transactions	(472)	(14)	(367)	67	(105)	29
Consolidated	Php3,400	100	(Php544)	100	Php3,944	725

[1] *Includes the Digitel Group's other income of Php1,007 million for the full year 2012.*
[2] *Includes the Digitel Group's other expenses of Php942 million for the period from October 26, 2011 to December 31, 2011.*

Consolidated net income, including net income from discontinued operations, increased by Php3,764 million, or 12%, to Php35,401 million in 2012, from Php31,637 million in 2011. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated revenues by Php16,023 million; (ii) an increase in consolidated other income – net by Php3,944 million; (iii) a decrease in consolidated provision for income tax by Php2,600 million, which was mainly due to lower taxable income from our fixed line business, partially offset by higher taxable income of our wireless, BPO and other businesses; and (iv) an increase in consolidated expenses by Php18,803 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php163.86 in 2012 from consolidated basic and diluted EPS of Php163.24 and Php163.10, respectively, in 2011. Our weighted average number of outstanding common shares was approximately 216.1 million and 191.4 million in the years ended December 31, 2012 and 2011, respectively.

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

	2012[1]	%	2011[2]	%	Change Amount	Change %
	(in millions)					
Wireless	Php24,468	69	Php22,366	71	Php2,102	9
Fixed line	5,471	16	6,302	20	(831)	(13)
BPO	1,129	3	984	3	145	15
Others	4,333	12	1,985	6	2,348	118
Consolidated	Php35,401	100	Php31,637	100	Php3,764	12

[1] *Includes the Digitel Group's net loss of Php147 million for the full year 2012.*
[2] *Includes the Digitel Group's net loss of Php606 million for the period from October 26, 2011 to December 31, 2011.*

EBITDA

Our consolidated EBITDA, including EBITDA from discontinued operations, amounted to Php77,258 million in 2012, a decrease of Php2,701 million, or 3%, as compared with Php79,959 million in 2011, primarily due to higher operating expenses driven by higher compensation and employee benefits, cost of sales, repairs and maintenance, selling and promotions, rent, and communication, training and travel, partially offset by an increase in consolidated revenues.

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

					Change	
	2012[(1)]	%	2011[(2)]	%	Amount	%
			(in millions)			
Wireless	Php54,433	70	Php55,393	69	(Php960)	(2)
Fixed line	20,304	26	22,675	28	(2,371)	(10)
BPO	2,067	3	1,558	2	509	33
Others	(18)	–	(11)	–	(7)	64
Inter-segment transactions	472	1	344	1	128	37
Consolidated	Php77,258	100	Php79,959	100	(Php2,701)	(3)

(1) *Includes the Digitel Group's EBITDA of Php6,545 million for the full year 2012.*
(2) *Includes the Digitel Group's EBITDA of Php1,056 million for the period from October 26, 2011 to December 31, 2011.*

Core Income

Our consolidated core income, including core income from discontinued operations, amounted to Php37,333 million in 2012, a decrease of Php1,702 million, or 4%, as compared with Php39,035 million 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, including basic and diluted core EPS from discontinued operations, also decreased to Php172.56 in 2012 from Php201.58 and Php201.41, respectively, in 2011.

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

					Increase (Decrease)	
	2012[(1)]	%	2011[(2)]	%	Amount	%
			(in millions)			
Wireless	Php25,685	69	Php29,903	77	(Php4,218)	(14)
Fixed line	6,087	16	5,765	15	322	6
BPO	1,137	3	906	2	231	25
Others	4,424	12	2,461	6	1,963	80
Consolidated	Php37,333	100	Php39,035	100	(Php1,702)	(4)

(1) *Includes the Digitel Group's core income of Php1,801 million for the full year 2012.*
(2) *Includes the Digitel Group's negative core income of Php9 million for the period from October 26, 2011 to December 31, 2011.*

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php119,592 million in 2012, an increase of Php16,054 million, or 16%, from Php103,538 million in 2011.

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

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Service Revenues:						
Cellular	Php107,359	90	Php93,645	90	Php13,714	15
Wireless broadband, satellite and others						
Wireless broadband	8,512	7	6,804	7	1,708	25
Satellite and others	1,568	1	1,620	2	(52)	(3)
	117,439	98	102,069	99	15,370	15
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	2,153	2	1,469	1	684	47
Total Wireless Revenues	Php119,592	100	Php103,538	100	Php16,054	16

(1) *Includes DMPI's revenue contribution of Php21,351 million for the full year 2012.*
(2) *Includes DMPI's revenue contribution of Php3,184 million for the period from October 26, 2011 to December 31, 2011.*

Service Revenues

Our wireless service revenues in 2012, increased by Php15,370 million, or 15%, to Php117,439 million as compared with Php102,069 million 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 an increase in DMPI's revenue contribution to our wireless service revenues in 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for 2012 were lower as compared with 2011. As a percentage of our total wireless revenues, service revenues accounted for 98% and 99% in 2012 and 2011, respectively.

Cellular Service

Our cellular service revenues in 2012 amounted to Php107,359 million, an increase of Php13,714 million, or 15%, from Php93,645 million in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in 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 years ended December 31, 2012 and 2011:

	2012[1]	2011[2]	Increase Amount	Increase %
	(in millions)			
Cellular service revenues	Php107,359	Php93,645	Php13,714	15
By service type	*104,766*	*91,120*	*13,646*	*15*
Prepaid	87,770	81,648	6,122	7
Postpaid	16,996	9,472	7,524	79
By component	*104,766*	*91,120*	*13,646*	*15*
Voice	51,492	43,885	7,607	17
Data	53,274	47,235	6,039	*13*
Others[3]	*2,593*	*2,525*	*68*	*3*

(1) *Includes DMPI's cellular service revenues of Php19,106 million for the full year 2012.*
(2) *Includes DMPI's cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*
(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 our other key measures of our cellular business as at and for the years ended December 31, 2012 and 2011:

	2012	2011	Increase (Decrease) Amount	Increase (Decrease) %
Cellular subscriber base	69,866,458	63,696,629	6,169,829	10
Prepaid	67,611,537	61,792,792	5,818,745	9
Smart Prepaid	*24,827,418*	*26,573,137*	*(1,745,719)*	*(7)*
Talk 'N Text	*28,445,053*	*20,467,175*	*7,977,878*	*39*
Sun Cellular	*14,105,031*	*13,314,096*	*790,935*	*6*
Red Mobile[1]	*234,035*	*1,438,384*	*(1,204,349)*	*(84)*
Postpaid	2,254,921	1,903,837	351,084	18
Sun Cellular	*1,571,441*	*1,353,089*	*218,352*	*16*
Smart	*683,428*	*550,485*	*132,943*	*24*
Red Mobile[1]	*52*	*263*	*(211)*	*(80)*
Systemwide traffic volumes (in millions)				
Calls (in minutes)[2]	53,472	44,192	9,280	21
Domestic	50,039	41,107	8,932	22
Inbound	*1,699*	*1,350*	*349*	*26*
Outbound	*48,340*	*39,757*	*8,583*	*22*
International	3,433	3,085	348	11
Inbound	*3,036*	*2,862*	*174*	*6*
Outbound	*397*	*223*	*174*	*78*
SMS/Data count (in hits)[3]	519,840	354,135	165,705	47
Text messages	509,476	351,502	157,974	45
Domestic	508,624	350,858	157,766	45
Bucket-Priced/Unlimited	464,698	322,588	142,110	44
Standard	43,926	28,270	15,656	55
International	852	644	208	32
Value-Added Services	10,311	2,596	7,715	297
Financial Services	53	37	16	43

(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) *Includes DMPI's minutes of 15,758 million minutes for the full year 2012 and 2,681 million minutes for the period from October 26, 2011 to December 31, 2011.*
(3) *Includes DMPI's SMS count of 64,427 million for the full year 2012 and 10,471 million for the period from October 26, 2011 to December 31, 2011.*

Revenues generated from our prepaid cellular services amounted to Php87,770 million in 2012, an increase of Php6,122 million, or 7%, as compared with Php81,648 million in 2011. Prepaid cellular service revenues accounted for 84% and 90% of cellular voice and data revenues in 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php16,996 million in 2012, an increase of Php7,524 million, or 79%, as compared with Php9,472 million earned in 2011, and which accounted for 16% and 10% of cellular voice and data revenues in 2012 and 2011, respectively. The increase in our postpaid cellular service revenues was primarily due to DMPI's higher postpaid cellular service revenue contribution by Php6,207 million and Smart's higher postpaid cellular service revenues by Php1,317 million due to an increase in subscriber base. The increase in revenues from our prepaid cellular services was primarily due to an increase in DMPI's revenue contribution to our prepaid cellular service revenues by Php9,856 million in 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.

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 Php7,607 million, or 17%, to Php51,492 million in 2012 from Php43,885 million in 2011, primarily due to an increase in DMPI's cellular voice revenue contribution, 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 2012 and 2011, respectively.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
		(in millions)		
Voice services:				
Domestic				
Inbound	Php6,556	Php4,963	Php1,593	32
Outbound	28,533	22,442	6,091	27
	35,089	27,405	7,684	28
International				
Inbound	13,791	13,906	(115)	(1)
Outbound	2,612	2,574	38	1
	16,403	16,480	(77)	–
Total	Php51,492	Php43,885	Php7,607	17

(1) *Includes DMPI's cellular voice revenues of Php11,586 million of operations for the full year 2012.*
(2) *Includes DMPI's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011.*

Domestic voice service revenues increased by Php7,684 million, or 28%, to Php35,089 million in 2012 from Php27,405 million in 2011, primarily due to an increase in domestic outbound and inbound voice service revenues of Php6,091 million and Php1,593 million, respectively.

Revenues from domestic outbound voice service increased by Php6,091 million, or 27%, to Php28,533 million in 2012 from Php22,442 million in 2011 mainly due to an increase in DMPI's domestic outbound voice service revenue contribution by Php7,047 million, partially offset by the decrease in Smart's revenues from domestic outbound voice service on the back of lower traffic on standard and unlimited calls. Domestic outbound call volume of 48,340 million minutes, which includes DMPI's domestic outbound call volume of 14,804 million minutes, in 2012, increased by 8,583 million minutes, or 22%, from 39,757 million minutes, which includes DMPI's domestic outbound call volumes of 2,590 million minutes, in 2011.

Revenues from our domestic inbound voice service increased by Php1,593 million, or 32%, to Php6,556 million in 2012 from Php4,963 million in 2011 primarily due to an increase in DMPI's domestic inbound voice service revenue contribution by Php1,484 million and the increase in Smart's inbound voice revenues due to increased traffic originating from other domestic mobile carriers and a favorable traffic settlement adjustment partly offset by lower traffic originating from fixed line calls. Domestic inbound call volumes of 1,699 million minutes, which includes DMPI's domestic inbound call volumes of 422 million minutes, in 2012, increased by 349 million minutes, or 26%, from 1,350 million minutes, which includes DMPI's domestic inbound call volumes of 55 million minutes, in 2011.

International voice service revenues decreased by Php77 million to Php16,403 million in 2012 from Php16,480 million in 2011 primarily due to lower international inbound voice service revenues by Php115 million, or 1%, to Php13,791 million in 2012 from Php13,906 million in 2011, partially offset by an increase in international outbound voice service revenues by Php38 million, or 1%, to Php2,612 million in 2012 from Php2,574 million 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, and Smart's lower international inbound voice traffic and inbound termination rates, partially offset by an increase in DMPI's international voice service revenue contribution by Php1,518 million. International inbound and outbound calls totaled 3,433 million minutes, which includes DMPI's international inbound and outbound call volume aggregating 532 million minutes, in 2012, an increase of 348 million minutes, or 11%, from 3,085 million minutes, which includes DMPI's international inbound and outbound call volumes of 36 million minutes, in 2011.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php6,039 million, or 13% to Php53,274 million in 2012 from Php47,235 million in 2011, primarily due to an increase in Digitel's cellular data service revenue contribution by Php6,014 million, 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 years 2012 and 2011.

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

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php44,568	Php40,096	Php4,472	11
Bucket-Priced/Unlimited	28,752	23,164	5,588	24
Standard	15,816	16,932	(1,116)	(7)
International	3,791	3,612	179	5
	48,359	43,708	4,651	11
Value-added services				
Internet-based[(3)]	3,121	1,707	1,414	83
Pasa Load/Give-a-load[(4)]	693	664	29	4
SMS-based[(5)]	614	652	(38)	(6)
MMS-based[(6)]	412	458	(46)	(10)
	4,840	3,481	1,359	39
Financial services	75	46	29	63
Total	Php53,274	Php47,235	Php6,039	13

(1) *Includes DMPI's cellular data service revenues of Php7,234 million for the full year 2012.*
(2) *Includes DMPI's cellular data service revenues of Php1,220 million for the period from October 26, 2011 to December 31, 2011.*
(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.*

Text messaging-related services contributed revenues of Php48,359 million in 2012, an increase of Php4,651 million, or 11%, as compared with Php43,708 million in 2011, and accounted for 91% and 93% of our total cellular data service revenues in 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from an increase in DMPI's text messaging revenue contribution by Php5,386 million, 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 Php28,752 million in 2012, an increase of Php5,588 million, or 24%, as compared with Php23,164 million in 2011, primarily due to an increase in revenue contribution from DMPI's bucket-priced/unlimited plans by Php3,383 million and an increase in Smart's revenues from bucket-priced/unlimited SMS offers. Bucket-priced/unlimited text messages of 464,698 million, which includes DMPI's bucket-priced/unlimited text messages of 44,036 million, in 2012, increased by 142,110 million, or 44%, from 322,588 million, which includes DMPI's bucket-priced/unlimited text messages of 8,235 million, in 2011.

Standard text messaging revenues, which includes outbound standard SMS and domestic inbound SMS revenues, decreased by Php1,116 million, or 7%, to Php15,816 million in 2012 from Php16,932 million 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 an increase in DMPI's standard text messaging revenue contribution by Php1,738 million. On the other hand, standard text messages of 43,926 million, which includes DMPI's standard text messages of 11,584 million, in 2012, increased by 15,656 million, or 55%, from 28,270 million, which includes DMPI's standard text messages of 1,352 million, 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 Php3,791 million in 2012, an increase of Php179 million, or 5%, from Php3,612 million in 2011 mainly due to an increase in DMPI's international text messaging revenue contribution by Php265 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 Php4,840 million in 2012, an increase of Php1,359 million, or 39%, as compared with Php3,481 million in 2011, primarily due to an increase in revenues from Smart's internet-based VAS, particularly from mobile internet browsing, and an increase in DMPI's VAS revenue contribution by Php628 million.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2012, our cellular subscribers totaled 69,866,458, an increase of 6,169,829, or 10%, over the cellular subscriber base of 63,696,629 as at December 31, 2011. Our cellular prepaid subscriber base grew by 5,818,745, or 9%, to 67,611,537 as at December 31, 2012 from 61,792,792 as at December 31, 2011, and our cellular postpaid subscriber base increased by 351,084, or 18%, to 2,254,921 as at December 31, 2012 from 1,903,837 as at December 31, 2011. The increase in subscriber base was primarily due to the growth in Smart's *Talk 'N Text* prepaid subscribers and an increase in DMPI's prepaid and postpaid subscribers by 790,935 and 218,352, respectively, as at December 31, 2012. Prepaid subscribers accounted for 97% of our total subscriber base as at December 31, 2012 and 2011.

Our net subscriber activations for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011	Increase (Decrease) Amount	%
Prepaid	5,818,745	3,603,022	2,215,723	61
Smart	*(1,745,719)*	*1,279,694*	*(3,025,413)*	*(236)*
Talk 'N Text	*7,977,878*	*1,499,794*	*6,478,084*	*432*
Red Mobile[1]	*(1,204,349)*	*484,775*	*(1,689,124)*	*(348)*
Sun Cellular[2]	*790,935*	*338,759*	*452,176*	*133*
Postpaid	351,084	178,870	172,214	96
Smart	*132,943*	*128,910*	*4,033*	*3*
Red Mobile[1]	*(211)*	*263*	*(474)*	*(180)*
Sun Cellular[2]	*218,352*	*49,697*	*168,655*	*339*
Total	6,169,829	3,781,892	2,387,937	63

(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) *Activations for the year 2012 represents full year activations while activations for the year 2011 represents activations for the period from October 26, 2011 to December 31, 2011.*

Prepaid and postpaid subscribers reflected net activations of 5,818,745 and 351,084 subscribers, respectively, in 2012 as compared with net activations of 3,603,022 and 178,870 in 2011, respectively.

The following table summarizes our average monthly churn rates for the years ended December 31, 2012 and 2011:

	2012	2011
	(in %)	
Prepaid		
Smart Prepaid	6.0	5.1
Talk 'N Text	4.1	5.5
Red Mobile	15.1	17.4
Sun Cellular	10.8	10.0
Postpaid		
Smart	2.6	2.1
Red Mobile	11.2	30.3
Sun Cellular	1.0	1.0

For *Smart Prepaid* subscribers, the average monthly churn rate in 2012 and 2011 were 6% and 5.1%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 4.1% and 5.5% in 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 15.1% and 17.4% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 10.8% and 10% in 2012 and 2011, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 2.6% and 2.1% in 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile* postpaid subscribers were 11.2% and 30.3% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 1% in each of 2012 and 2011.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2012 and 2011:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2012	2011	Amount	%	2012	2011	Amount	%
Prepaid								
Smart Prepaid	Php173	Php198	(25)	(13)	Php151	Php173	(22)	(13)
Talk 'N Text	113	124	(11)	(9)	99	109	(10)	(9)
Red Mobile	71	38	33	87	62	33	29	88
Sun Cellular	79	75	4	5	69	65	4	6
Postpaid								
Smart	1,280	1,548	(268)	(17)	1,263	1,511	(248)	(16)
Red Mobile	363	373	(10)	(3)	363	373	(10)	(3)
Sun Cellular	418	450	(32)	(7)	416	447	(31)	(7)

(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.*

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

	Prepaid								Postpaid					
	Smart Prepaid		Talk 'N Text		Red Mobile		Sun Cellular[1]		Smart		Red Mobile		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
Fourth Quarter	175	154	108	95	101	90	87	77	1,278	1,262	370	370	417	413
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	–	–

(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.*

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 Php1,708 million, or 25%, to Php8,512 million in 2012 from Php6,804 million in 2011, primarily due to an increase in DMPI's and SBI's revenue contribution by Php1,473 million and Php235 million, respectively, and a 14% growth in broadband subscriber base.

The following table shows information of our wireless broadband subscriber base as at December 31, 2012 and 2011:

			Increase	
	2012	**2011**	**Amount**	**%**
Wireless Broadband Subscribers	2,359,024	2,068,409	290,615	14
Prepaid	*1,587,160*	*1,362,992*	*224,168*	*16*
Smart Broadband	1,231,092	1,162,020	69,072	*6*
Sun Cellular	356,068	200,972	155,096	77
Postpaid	*771,864*	*705,417*	*66,447*	9
Smart Broadband	495,802	454,333	41,469	*9*
Sun Cellular	276,062	251,084	24,978	10

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,359,024 subscribers as at December 31, 2012, an increase of 290,615 subscribers, or 14%, as compared with 2,068,409 subscribers as at December 31, 2011, primarily due to an increase in DMPI's prepaid and postpaid broadband subscribers by 155,096 and 24,978, respectively, and an increase by 110,541, or 7%, in SBI's broadband subscribers as at December 31, 2012. Our prepaid wireless broadband subscriber base increased by 224,168 subscribers, or 16%, to 1,587,160 subscribers as at December 31, 2012 from 1,362,992 subscribers as at December 31, 2011, while our postpaid wireless broadband subscriber base increased by 66,447 subscribers, or 9%, to 771,864 subscribers as at December 31, 2012 from 705,417 subscribers as at December 31, 2011.

SBI's *SmartBro* fixed wireless broadband service, recently rebranded as *myBro*, is 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 Php52 million, or 3%, to Php1,568 million in 2012 from Php1,620 million 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php684 million, or 47%, to Php2,153 million in 2012 as compared with Php1,469 million 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 increase in DMPI's non-service revenue contribution by Php396 million for 2012.

Expenses

Expenses associated with our wireless business amounted to Php87,961 million in 2012, an increase of Php16,912 million, or 24%, from Php71,049 million in 2011. A significant portion of this increase was attributable to higher expenses related to depreciation and amortization, compensation and employee benefits, cost of sales, interconnection costs, repairs and maintenance, selling and promotions, rent, and amortization of intangible assets, partially offset by lower expenses related to asset impairment. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 74% and 69% in 2012 and 2011, respectively.

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

					Increase (Decrease)	
	2012[1]	**%**	**2011**[2]	**%**	**Amount**	**%**
			(in millions)			
Depreciation and amortization	Php19,000	22	Php14,295	20	Php4,705	33
Interconnection costs	12,118	14	9,604	14	2,514	26
Rent	9,998	11	8,251	12	1,747	21
Compensation and employee benefits	9,131	10	5,248	7	3,883	74
Selling and promotions	7,933	9	6,144	9	1,789	29
Repairs and maintenance	7,843	9	5,643	8	2,200	39
Cost of sales	7,373	8	4,267	6	3,106	73
Asset impairment	4,218	5	9,197	13	(4,979)	(54)
Professional and other contracted services	3,744	4	3,176	5	568	18
Taxes and licenses	2,410	3	2,233	3	177	8
Communication, training and travel	1,430	2	1,022	1	408	40
Insurance and security services	1,033	1	847	1	186	22
Amortization of intangible assets	921	1	108	–	813	753
Other expenses	809	1	1,014	1	(205)	(20)
Total	Php87,961	100	Php71,049	100	Php16,912	24

(1) *Includes DMPI's expenses of Php23,694 million for the full year 2012.*
(2) *Includes DMPI's expenses of Php3,083 million for the period from October 26, 2011 to December 31, 2011.*

Depreciation and amortization charges increased by Php4,705 million, or 33%, to Php19,000 million primarily due to an increase in DMPI's depreciation and amortization expense by Php4,319 million and Smart's higher depreciable asset base.

Interconnection costs increased by Php2,514 million, or 26%, to Php12,118 million primarily due to an increase in DMPI's interconnection costs by Php2,607 million, partially offset by a decrease in interconnection charges on Smart's domestic SMS, and international voice and SMS roaming.

Rent expenses increased by Php1,747 million, or 21%, to Php9,998 million primarily due to an increase in DMPI's rent expense by Php1,715 million, increase in site and office building rental and domestic fiber optic network, or DFON, charges, partially offset by a decrease in leased circuit and satellite rental charges. In the year ended December 31, 2012, we had 10,440 cell sites, 13,878 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations, as compared with 10,482 cell sites, 12,635 cellular/mobile broadband base stations and 2,786 fixed wireless broadband-enabled base stations in 2011.

Compensation and employee benefits expenses increased by Php3,883 million, or 74%, to Php9,131 million primarily due to an increase in DMPI's compensation and employee benefit expense by Php1,996 million, 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 8,513 as at December 31, 2012 as compared with 8,043 as at December 31, 2011, primarily due to an increase in Smart's and DMPI's headcount by an aggregate of 470 as at December 31, 2012.

Selling and promotion expenses increased by Php1,789 million, or 29%, to Php7,933 million primarily due to an increase in DMPI's selling and promotions expense by Php1,296 million and higher spending on advertising and promotional campaigns, public relations and commissions.

Repairs and maintenance expenses increased by Php2,200 million, or 39%, to Php7,843 million mainly due to an increase in DMPI's repairs and maintenance expense by Php2,265 million, higher office and cell site electricity charges, and IT hardware and software costs, partly offset by lower maintenance costs on cellular and broadband network facilities and other work equipment, as well as lower fuel costs.

Cost of sales increased by Php3,106 million, or 73%, to Php7,373 million primarily due to an increase in DMPI's cost of sales by Php2,013 million 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.

Asset impairment decreased by Php4,979 million, or 54%, to Php4,218 million primarily due to impairment charges in 2011 on certain network equipment and facilities as a result of Smart's network modernization program, partially offset by an increase in DMPI's asset impairment by Php3,051 million, higher provision for uncollectible receivables and provision for inventory obsolescence covering slow-moving cellular handsets and broadband modems.

Professional and other contracted service fees increased by Php568 million, or 18%, to Php3,744 million primarily due to an increase in DMPI's professional and other contracted service fees by Php319 million, and the increase in call center, market research, consultancy, contracted service, outsourced service costs and legal fees, partly offset by lower technical service, corporate membership and bill printing fees.

Taxes and licenses increased by Php177 million, or 8%, to Php2,410 million primarily due to an increase in DMPI's taxes and licenses by Php469 million.

Communication, training and travel expenses increased by Php408 million, or 40%, to Php1,430 million primarily due to an increase in DMPI's communication, training and travel expense by Php314 million and higher expenses related to freight and hauling, and training services, partially offset by lower travel expenses, communication charges and fuel consumption costs for executive vehicles.

Insurance and security services increased by Php186 million, or 22%, to Php1,033 million primarily due to an increase in DMPI's insurance and security expense by Php177 million, and higher insurance and bond premiums, partially offset by Smart's lower expenses on security services.

Amortization of intangible assets increased by Php813 million to Php921 million primarily due to the amortization of intangible assets related to customer list and franchise of DMPI in 2012.

Other expenses decreased by Php205 million, or 20%, to Php809 million primarily due to lower various business and operational-related expenses, partly offset by an increase in DMPI's other operational expenses by Php70 million.

Other Income (Expenses)

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

			Change	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains (losses) – net	Php2,419	(Php720)	Php3,139	436
Interest income	565	677	(112)	(17)
Losses on derivative financial instruments – net	(51)	(10)	(41)	410
Equity share in net losses of associates	(78)	(115)	37	(32)
Financing costs – net	(2,683)	(2,744)	61	(2)
Others	759	1,218	(459)	(38)
Total	Php931	(Php1,694)	Php2,625	155

[(1)] *Includes DMPI's other income of Php569 million for the full year 2012.*
[(2)] *Includes DMPI's other expenses – net of Php764 million for the period from October 26, 2011 to December 31, 2011.*

Our wireless business' other income amounted to Php931 million in 2012, a change of Php2,625 million, or 155%, as against other expenses of Php1,694 million in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php3,139 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 an increase in gains on revaluation of net dollar-denominated liabilities of DMPI by Php2,057 million; (ii) lower net financing costs by Php61 million primarily due to increase in capitalized interest and Smart's decrease in interest expense mainly due to a lower average loan balance and interest rate, partly offset by an increase in DMPI's financing costs by Php633 million, and higher accretion on financial liabilities and financing charges; (iii) a decrease in equity share in net losses of associates by Php37 million; (iv) higher net loss on derivative financial instruments by Php41 million in 2012 mainly due to an increase in DMPI's net loss on derivative financial instruments; (v) a decrease in interest income by Php112 million mainly due to lower average short-term investments and lower average interest rates, as well as shorter average tenor of U.S. dollar and peso placements in 2012 and the appreciation of the Philippine peso to the U.S. dollar, partially offset by an increase in DMPI's interest income by Php31 million; and (vi) a decrease in other income by Php459 million mainly due to lower rental and other miscellaneous income, a decrease in DMPI's other income contribution by Php79 million, partially offset by higher net gain on fixed assets disposal and outsourcing income.

Provision for Income Tax

Provision for income tax decreased by Php335 million, or 4%, to Php8,094 million in 2012 from Php8,429 million in 2011 primarily due to the realization of forex loss on dollar denominated debt and accounts receivables written off, partially offset by the expiration of SBI's tax holiday in July 2011. The effective tax rate for our wireless business was 25% and 27% in 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business' net income increased by Php2,102 million, or 9%, to Php24,468 million from Php22,366 million recorded in 2011.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php960 million, or 2%, to Php54,433 million in 2012 from Php55,393 million in 2011.

Core Income

Our wireless business' core income decreased by Php4,218 million, or 14%, to Php25,685 million in 2012 from Php29,903 million in 2011 on account of an increase in wireless-related operating and other expenses, partially offset by higher wireless revenues and lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php62,490 million in 2012, an increase of Php2,484 million, or 4%, from Php60,006 million in 2011.

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

					Increase (Decrease)	
	2012[1]	%	2011[2]	%	Amount	%
			(in millions)			
Service Revenues:						
Local exchange	Php16,483	26	Php15,734	26	Php749	5
International long distance	10,885	17	11,383	19	(498)	(4)
National long distance	5,272	9	5,711	9	(439)	(8)
Data and other network	25,735	41	23,155	39	2,580	11
Miscellaneous	2,888	5	2,802	5	86	3
	61,263	98	58,785	98	2,478	4
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,227	2	1,221	2	6	–
Total Fixed Line Revenues	Php62,490	100	Php60,006	100	Php2,484	4

[1] *Includes Digitel's service revenues of Php3,265 million for the full year 2012.*
[2] *Includes Digitel's service revenues of Php706 million for the period from October 26, 2011 to December 31, 2011.*

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 Php2,478 million, or 4%, to Php61,263 million in 2012 from Php58,785 million in 2011 due to an increase in the revenue contribution of our data and other network, local exchange and miscellaneous services, partially offset by decreases in international and national long distance services.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
Total local exchange service revenues (in millions)	Php16,483	Php15,734	Php749	5
Number of fixed line subscribers	2,063,794	2,166,295	(102,501)	(5)
Postpaid	1,997,671	2,029,359	(31,688)	(2)
Prepaid	66,123	136,936	(70,813)	(52)
Number of fixed line employees	7,546	9,072	(1,526)	(17)
Number of fixed line subscribers per employee	273	239	34	14

(1) *Includes Digitel's local exchange revenue contribution of Php989 million, subscriber base of 206,631 and employee count of 516 as at and for the full year 2012.*
(2) *Includes Digitel's local exchange revenue contribution of Php178 million, subscriber base of 296,395 and employee count of 1,586 for the period from October 26, 2011 to December 31, 2011.*

Revenues from our local exchange service increased by Php749 million, or 5%, to Php16,483 million in 2012 from Php15,734 million in 2011, primarily due to an increase in Digitel's local exchange service revenue contribution by Php811 million 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 was 27% in each 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 years ended December 31, 2012 and 2011:

			Increase (Decrease)	
	2012[(1)]	**2011**[(2)]	**Amount**	**%**
Total international long distance service revenues (in millions)	Php10,885	Php11,383	(Php498)	(4)
Inbound	9,547	10,231	(684)	(7)
Outbound	1,338	1,152	186	16
International call volumes (in million minutes, except call ratio)	2,150	2,029	121	6
Inbound	1,691	1,767	(76)	(4)
Outbound	459	262	197	75
Inbound-outbound call ratio	3.7:1	6.7:1	–	–

(1) *Includes Digitel's international long distance service revenue contribution of Php688 million for the full year 2012.*
(2) *Includes Digitel's international long distance service revenue contribution of Php239 million for the period from October 26, 2011 to December 31, 2011.*

Our total international long distance service revenues decreased by Php498 million, or 4%, to Php10,885 million in 2012 from Php11,383 million 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, partially offset by increases in Digitel's international long distance service revenue contribution by Php449 million and call volumes by 290 million minutes, and the increase in average collection rate in dollar terms. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% and 19% in 2012 and 2011, respectively.

Our revenues from inbound international long distance service decreased by Php684 million, or 7%, to Php9,547 million in 2012 from Php10,231 million 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 an increase in Digitel's inbound international long distance service revenue contribution by Php117 million and inbound call volumes by 13 million minutes.

Our revenues from outbound international long distance service increased by Php186 million, or 16%, to Php1,338 million in 2012 from Php1,152 million in 2011, primarily due to an increase in Digitel's revenue contribution from outbound international long distance service by Php332 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, resulting in a decrease in the average billing rate to Php42.45 in 2012 from Php43.34 in 2011.

National Long Distance Service

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

			Decrease	
	2012(1)	**2011**(2)	**Amount**	**%**
Total national long distance service revenues (in millions)	Php5,272	Php5,711	(Php439)	(8)
National long distance call volumes (in million minutes)	971	1,126	(155)	(14)

(1) *Includes Digitel's national long distance service revenue contribution of Php346 million and call volume of 39 million minutes for the full year 2012.*

(2) *Includes Digitel's national long distance service revenue contribution of Php68 million and call volume of 10 million minutes for the period from October 26, 2011 to December 31, 2011.*

Our national long distance service revenues decreased by Php439 million, or 8%, to Php5,272 million in 2012 from Php5,711 million in 2011, primarily due to a decrease in call volumes, partially offset by an increase in Digitel's national long distance service revenue contribution by Php278 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 was 8% and 10% in 2012 and 2011, respectively.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2012 and 2011:

	2012[(1)]	2011[(2)]	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php25,735	Php23,155	Php2,580	11
Domestic	18,682	16,647	2,035	12
Broadband	*11,640*	*9,940*	*1,700*	*17*
DSL	11,405	9,664	1,741	18
WeRoam	235	276	(41)	(15)
Leased Lines and Others	*7,042*	*6,707*	*335*	*5*
International				
Leased Lines and Others	*5,679*	*5,358*	*321*	*6*
Vitro™ Data Center	1,374	1,150	224	19
Subscriber base				
Broadband	*903,860*	*859,960*	*43,900*	*5*
DSL	887,399	842,273	45,126	5
WeRoam	16,461	17,687	(1,226)	(7)
SWUP	*22,720*	*20,153*	*2,567*	*13*

(1) Includes Digitel's data and other network service revenue contribution of Php1,242 million for the full year 2012 and DSL subscribers of 74,921 as at December 31, 2012.

(2) Includes Digitel's data and other network service revenue contribution of Php221 million for the period from October 26, 2011 to December 31, 2011 and DSL subscribers of 99,367 as at December 31, 2011.

Our data and other network services posted revenues of Php25,735 million in 2012, an increase of Php2,580 million, or 11%, from Php23,155 million in 2011, primarily due to higher revenues from *PLDT DSL*, the increase in Digitel's data and other network service revenue contribution by Php1,021 million, 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 was 42% and 39% in 2012 and 2011, respectively.

Domestic

Domestic data services contributed Php18,682 million in 2012, an increase of Php2,035 million, or 12%, as compared with Php16,647 million in 2011 mainly due to higher DSL revenues and an increase in Digitel's revenue contribution by Php1,003 million in 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 was 73% and 72% in 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 Php11,640 million in 2012, an increase of Php1,700 million, or 17%, from Php9,940 million in 2011, primarily due to the higher revenue contribution of DSL which contributed revenues of Php11,405 million in 2012 from Php9,664 million in 2011 as a result of the increase in the number of subscribers by 5% to 903,860 subscribers, including Digitel's DSL subscriber base of 74,921, as at December 31, 2012, from 859,960 subscribers, which includes Digitel's subscriber base of 99,367, as at December 31, 2011. DSL revenues accounted for 44% and 42% of total data and other network service revenues in 2012 and 2011, respectively.

WeRoam revenues amounted to Php235 million in 2012, a decrease of Php41 million, or 15%, from Php276 million in 2011 as a result of a decrease in subscriber base by 7% to 16,461 subscribers in 2012 from 17,687 subscribers 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 December 31, 2012, *SWUP* had a total subscriber base of 22,720 up by 2,567, or 13%, from 20,153 subscribers in 2011. Leased lines and other data revenues amounted to Php7,042 million in 2012, an increase of Php335 million, or 5%, from Php6,707 million in 2011, primarily due to an increase in Digitel's leased line data revenue contribution by Php376 million, 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 was 28% and 29% in 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 Php321 million, or 6%, to Php5,679 million in 2012 from Php5,358 million in 2011, primarily due to higher i-Gate, and inland-cable lease revenues, and an increase in Digitel's international leased line data revenue contribution by Php18 million, 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 was 22% and 23% in 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. Data center revenues increased by Php224 million, or 19%, to Php1,374 million in 2012 from Php1,150 million 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 increased by Php86 million, or 3%, to Php2,888 million in 2012 from Php2,802 million in 2011 mainly due to 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, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels, and higher rental and facilities management fees, partially offset by 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. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 5% in each of 2012 and 2011.

Non-service Revenues

Non-service revenues increased by Php6 million to Php1,227 million in 2012 from Php1,221 million in 2011, primarily due to increases in hardware and software licenses, *Telpad* units and UNO equipments sold, partially offset by lower computer-bundled sales, sales of several managed PABX and *On Call* solutions and *PLP* units.

Expenses

Expenses related to our fixed line business totaled Php55,555 million in 2012, an increase of Php4,935 million, or 10%, as compared with Php50,620 million in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, professional and other contracted services, rent, cost of sales, selling and promotions, depreciation and amortization, and asset impairment, partly offset by lower expenses related to interconnection costs, taxes and licenses, amortization of intangible assets, and communication, training and travel. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 89% and 84% in 2012 and 2011, respectively.

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

	2012[(1)]	%	2011[(2)]	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits	Php13,937	25	Php9,855	20	Php4,082	41
Depreciation and amortization	13,354	24	13,244	26	110	1
Interconnection costs	8,120	15	8,471	17	(351)	(4)
Repairs and maintenance	5,460	10	5,116	10	344	7
Professional and other contracted services	4,351	8	4,043	8	308	8
Rent	2,947	5	2,689	5	258	10
Selling and promotions	1,786	3	1,665	3	121	7
Cost of sales	1,374	3	1,178	2	196	17
Taxes and licenses	1,097	2	1,319	3	(222)	(17)
Asset impairment	1,068	2	1,003	2	65	6
Communication, training and travel	771	1	780	2	(9)	(1)
Insurance and security services	632	1	577	1	55	10
Amortization of intangible assets	–	–	32	–	(32)	(100)
Other expenses	658	1	648	1	10	2
Total	Php55,555	100	Php50,620	100	Php4,935	10

(1) *Includes Digitel's expenses of Php3,219 million for the full year 2012.*
(2) *Includes Digitel's expenses of Php726 million for the period from October 26, 2011 to December 31, 2011.*

Compensation and employee benefits expenses increased by Php4,082 million, or 41%, to Php13,937 million primarily due to higher MRP costs, salaries and employee benefits, LTIP costs, as well as an increase in Digitel's compensation and employee benefits expense by Php772 million, partially offset by lower provision for pension costs. Employee headcount decreased to 10,462 in 2012 as compared with 11,409 in 2011 mainly due to a decrease in PLDT's and Digitel's headcounts as a result of the MRP, partially offset by an increase in the number of employee headcount of iPlus.

Depreciation and amortization charges increased by Php110 million, or 1%, to Php13,354 million due to an increase in Digitel's depreciation and amortization expense by Php435 million, partly offset by PLDT's lower depreciable asset base.

Interconnection costs decreased by Php351 million, or 4%, to Php8,120 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 an increase in Digitel's interconnection costs by Php389 million.

Repairs and maintenance expenses increased by Php344 million, or 7%, to Php5,460 million primarily due to an increase in Digitel's repairs and maintenance expense by Php385 million, higher repairs and maintenance costs for buildings, IT software, and office electricity cost, partially offset by lower repairs and maintenance costs on central office/telecoms equipment, site fuel consumption, and vehicles, furnitures and other work equipment.

Professional and other contracted service expenses increased by Php308 million, or 8%, to Php4,351 million primarily due to higher contracted service, transfer agents', technical service, collection agency, and other professional fees, as well as an increase in Digitel's professional and other contracted fees by Php146 million, partially offset by lower consultancy and bill printing fees.

Rent expenses increased by Php258 million, or 10%, to Php2,947 million primarily due to an increase in Digitel's rent expense by Php146 million, 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 Php121 million, or 7%, to Php1,786 million primarily due to an increase in Digitel's selling and promotions expense by Php11 million, as well as higher advertising expenses, partially offset by lower public relations and commissions expense.

Cost of sales increased by Php196 million, or 17%, to Php1,374 million primarily due to an increase in Digitel's cost of sales by Php32 million and an increase in the sale of *Telpad* units, partially offset by lower sales of several managed PABX and *OnCall* solutions, and *PLP* units.

Taxes and licenses decreased by Php222 million, or 17%, to Php1,097 million as a result of lower real property taxes and NTC license fees, partly offset by an increase in Digitel's taxes and license expense by Php39 million.

Asset impairment increased by Php65 million, or 6%, to Php1,068 million mainly due to an increase in Digitel's asset impairment charge by Php45 million, partially offset by lower provision for uncollectible receivables mainly by Philcom.

Communication, training and travel expenses decreased by Php9 million, or 1%, to Php771 million mainly due to a decrease in foreign travel, mailing and courier, and fuel consumption charges, partially offset by higher local training and travel, and an increase in Digitel's communication, training and travel expense by Php36 million.

Insurance and security services increased by Php55 million, or 10%, to Php632 million primarily due to higher office security services, and an increase in Digitel's insurance and security expense by Php43 million, partially offset by lower expenses insurance and bond premiums.

Amortization of intangible assets amounted to Php32 million in 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 Php10 million, or 2%, to Php658 million primarily due to higher various business and operational-related expenses and an increase in Digitel's other expense by Php14 million.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2012 and 2011:

			Change	
	2012[(1)]	2011[(2)]	Amount	%
		(in millions)		
Other Income (Expenses):				
Interest income	Php883	Php590	Php293	50
Foreign exchange gains (losses) – net	863	(15)	878	5,853
Equity share in net earnings of associates	108	307	(199)	(65)
Gains (losses) on derivative financial instruments – net	(1,958)	211	(2,169)	(1,028)
Financing costs – net	(4,363)	(3,710)	(653)	18
Others	2,914	2,024	890	44
Total	(Php1,553)	(Php593)	(Php960)	162

(1) *Includes Digitel's other income of Php2,414 million for the full year 2012.*
(2) *Includes Digitel's other expenses of Php2,240 million for the period from October 26, 2011 to December 31, 2011.*

Our fixed line business' other expenses amounted to Php1,553 million in 2012, an increase of Php960 million, or 162%, from Php593 million in 2011. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php1,958 million in 2012 as against net gains on derivative financial instruments of Php211 million 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 Php653 million due to higher interest expense on loans and related items, and financing charges, partially offset by a decrease in Digitel's financing costs by Php83 million; (iii) decrease in equity share in net earnings of associates and joint ventures by Php199 million mainly due to the disposal of investment in Philweb Corporation, or Philweb; (iv) an increase in interest income by Php293 million due to a higher principal amount of placements and an increase in Digitel's interest income by Php27 million, partially offset by lower average 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 Php878 million due to an increase in Digitel's foreign exchange gains by Php181 million 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 Php890 million mainly due to gain on the first and second tranches of disposal of Philweb shares and higher reversal of prior year provisions, partially offset by lower gain on sale of investments, lower gain on disposal of fixed assets, pension benefit income recognized by PLDT and lower income from consultancy.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php89 million in 2012, a change of Php2,580 million, or 104%, as against provision for income tax of Php2,491 million in 2011, primarily due to lower taxable income.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,471 million in 2012, decreased by Php831 million, or 13%, as compared with Php6,302 million in 2011.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php2,371 million, or 10%, to Php20,304 million in 2012 from Php22,675 million in 2011.

Core Income

Our fixed line business' core income increased by Php322 million, or 6%, to Php6,087 million in 2012 from Php5,765 million in 2011, primarily as a result of higher fixed line revenues, decrease in provision for income tax and other expenses, partially offset by higher fixed line operating expenses.

Business Process Outsourcing

Revenues

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

Our BPO business generated revenues of Php9,899 million in 2012, an increase of Php1,311 million, or 15%, as compared with Php8,588 million 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 years ended December 31, 2012 and 2011 by service segment:

	2012	%	2011	%	Increase Amount	Increase %
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php6,594	67	Php5,721	67	Php873	15
Customer relationship management	3,305	33	2,867	33	438	15
Total BPO Revenues	Php9,899	100	Php8,588	100	Php1,311	15

Service Revenues

Service revenues generated by our BPO business amounted to Php9,899 million in 2012, an increase of Php1,311 million, or 15%, as compared with Php8,588 million 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 Php6,594 million in 2012, an increase of Php873 million, or 15%, from Php5,721 million in 2011. Dollar-denominated revenues increased by 18% 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 2%. Knowledge processing solutions business revenues accounted for 67% of total revenues of our BPO business in each of 2012 and 2011.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In the 2012, SPi CRM changed its functional currency from Philippine peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php438 million, or 15%, to Php3,305 million in 2012 from Php2,867 million in 2011, primarily due to higher domestic sales by 19%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar and lower revenues from Infocom due to the transfer of part of its services to PLDT. In total, we own and operate 6,200 seats with an average of 3,709 customer service representatives, or CSRs, in 2012, as compared with 5,959 seats with an average of 3,360 CSRs in 2011. SPi CRM had six customer relationship management sites as at December 31, 2012 and 2011. Customer relationship management business revenues accounted for 33% of total revenues of our BPO business in each of 2012 and 2011.

Expenses

Expenses associated with our BPO business totaled Php8,478 million in 2012, an increase of Php880 million, or 12%, as compared with Php7,598 million in 2011, primarily due to higher expenses related to compensation and employee benefits, professional and other contracted services, repairs and maintenance, communication, training and travel, depreciation and amortization, selling and promotions, amortization of intangible assets and rent. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 86% and 88% in 2012 and 2011, respectively.

					Increase (Decrease)	
	2012	%	2011	%	Amount	%
			(in millions)			
Compensation and employee benefits	Php5,513	65	Php5,062	67	Php451	9
Professional and other contracted services	672	8	538	7	134	25
Repairs and maintenance	470	6	379	5	91	24
Depreciation and amortization	466	5	418	5	48	11
Rent	447	5	423	6	24	6
Communication, training and travel	403	5	344	4	59	17
Amortization of intangible assets	180	2	147	2	33	22
Selling and promotions	78	1	40	–	38	95
Insurance and security services	63	1	58	1	5	9
Taxes and licenses	43	–	43	1	–	–
Asset impairment	3	–	9	–	(6)	(67)
Other expenses	140	2	137	2	3	2
Total	Php8,478	100	Php7,598	100	Php880	12

Compensation and employee benefits increased by Php451 million, or 9%, to Php5,513 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 3,101, or 21%, to 17,765 in 2012 as compared with 14,664 in 2011.

Professional and other contracted services increased by Php134 million, or 25%, to Php672 million primarily due to higher contracted service, consultancy and other professional fees.

Repairs and maintenance expenses increased by Php91 million, or 24%, to Php470 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.

Depreciation and amortization increased by Php48 million, or 11%, to Php466 million primarily due to higher depreciable asset base.

Rent expenses increased by Php24 million, or 6%, to Php447 million primarily due to higher office building rental charges, partially offset by lower site rental charges.

Communication, training and travel expenses increased by Php59 million, or 17%, to Php403 million primarily due to higher travel and training expenses, and mailing and courier charges, partially offset by lower freight and hauling charges.

Amortization of intangible assets increased by Php33 million, or 22%, to Php180 million primarily due to higher amortization of intangible assets in 2012.

Selling and promotions expenses increased by Php38 million, or 95%, to Php78 million primarily due to higher spending on advertising and promotions, as well as higher commissions expenses.

Insurance and security services increased by Php5 million, or 9%, to Php63 million primarily due to higher expenses on office security, and insurance and bond premiums.

Taxes and licenses remained flat at Php43 million due to business-related taxes in 2012 and 2011.

Asset impairment decreased by Php6 million, or 67%, to Php3 million primarily due to lower provision for uncollectible receivables.

Other expenses increased by Php3 million, or 2%, to Php140 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 years ended December 31, 2012 and 2011:

			Change	
	2012	**2011[1]**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php28	(Php4)	Php32	800
Interest income	16	15	1	7
Financing costs	(24)	(37)	13	(35)
Foreign exchange losses – net	(39)	(9)	(30)	333
Others	155	147	8	5
Total	Php136	Php112	Php24	21

[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 Php136 million in 2012, an increase of Php24 million, or 21%, from Php112 million in 2011, primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php28 million in 2012 as against a net loss on derivative financial instruments of Php4 million due to mark-to-market gains from forward foreign exchange contracts; (ii) a decrease in financing costs by Php13 million due to payment of contingent liabilities and related interests in 2011 from our knowledge processing solutions business; (iii) an increase in other income by Php8 million mainly due to higher reversal of prior year provisions and rental income; (iv) an increase in interest income by Php1 million due to higher interest earned; and (v) an increase in net foreign exchange losses by Php30 million due to the revaluation of net foreign currency-denominated liabilities as a result of the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar in 2012.

Provision for Income Tax

Provision for income tax amounted to Php428 million, an increase of Php310 million, or 263%, in 2012 from Php118 million in 2011, primarily due to higher taxable income in 2012, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords in 2012.

Net Income

As a result of the foregoing, our BPO business registered a net income of Php1,129 million in 2012, an increase of Php145 million, or 15%, from Php984 million in 2011.

EBITDA

As a result of the foregoing, our BPO business' EBITDA increased by Php509 million, or 33%, to Php2,067 million in 2012 from Php1,558 million in 2011.

Core Income

Our BPO business' core income amounted to Php1,137 million in 2012, an increase of Php231 million, or 25%, as compared with Php906 million in 2011 mainly as a result of an increase in BPO revenues and other income, partially offset by an increase in BPO-related expenses and higher provision for income tax.

Others

Expenses

Expenses associated with our other business segment totaled Php18 million in 2012, an increase of Php7 million, or 64%, as compared with Php11 million 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 years ended December 31, 2012 and 2011:

			Change	
	2012	**2011**[1]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,508	Php1,843	(Php335)	(18)
Interest income	76	90	(14)	(16)
Others	2,774	65	2,709	4,168
Total	Php4,358	Php1,998	Php2,360	118

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

Other income increased by Php2,360 million, or 118%, to Php4,358 million in 2012 from Php1,998 million in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php2,709 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 Php720 million; (ii) a decrease in interest income by Php14 million as a result of lower average level of temporary cash investments by our PCEV business; and (iii) a decrease in equity share in net earnings of associates by Php335 million mainly due to the decrease in PCEV's indirect share in the net earnings of Meralco.

For the years ended December 31, 2012, Meralco's reported and core income amounted to Php17,016 million and Php16,265 million, respectively, as compared with Php13,227 million and Php14,887 million, respectively, in 2011. These results were primarily due to increases in billed customers and electricity sales volume, partially offset by lower distribution and transmission rates in 2012 as compared with 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 Php1,508 million and Php1,598 million, respectively, in 2012, and Php1,843 million and Php2,319 million, respectively, in 2011.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php4,333 million, an increase of Php2,348 million, or 118%, in 2012 from Php1,985 million in 2011.

EBITDA

As a result of the foregoing, negative EBITDA from our other business segment increased by negative Php7 million, or 64%, to negative Php18 million in 2012 from negative Php11 million in 2011.

Core Income

Our other business segment's core income amounted to Php4,424 million in 2012, an increase of Php1,963 million, or 80%, as compared with Php2,461 million in 2011 mainly as a result of an increase in other income, partially offset by a decrease in the adjustment in equity share of Meralco.

Liquidity and Capital Resources

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

	Years ended December 31,	
	2012	2011
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php80,370	Php79,209
Net cash used in investing activities	39,058	29,712
Capital expenditures	*36,396*	*31,207*
Net cash used in financing activities	48,628	40,204
Net increase (decrease) in cash and cash equivalents	(7,761)	9,379

	December 31,	
	2012	2011
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php102,811	Php91,273
Obligations under finance lease	10	7
	102,821	91,280
Current portion of interest-bearing financial liabilities:		
Notes payable	–	3,109
Long-term debt maturing within one year	12,981	22,893
Obligations under finance lease maturing within one year	8	7
	12,989	26,009
Total interest-bearing financial liabilities	115,810	117,289
Total equity attributable to equity holders of PLDT	149,060	151,833
	Php264,870	Php269,122
Other Selected Financial Data		
Total assets[(1)]	Php410,468	Php399,822
Property, plant and equipment[(1)]	200,078	200,142
Cash and cash equivalents	37,161	46,057
Short-term investments	574	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 audited consolidated financial statements.

Our consolidated cash and cash equivalents and short-term investments totaled Php37,735 million as at December 31, 2012. Principal sources of consolidated cash and cash equivalents in 2012 were cash flows from operating activities amounting to Php80,370 million, proceeds from availment of long-term debt and notes payable of Php52,144 million, net proceeds from disposal of investment available for sale of Php3,563 million, proceeds from net assets held for sale of Php1,913 million, interest received of Php1,294 million and dividends received of Php784 million. These funds were used principally for: (1) debt principal and interest payments of Php50,068 million and Php5,355 million, respectively; (2) dividend payments of Php36,934 million; (3) capital outlays of Php36,396 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php10,500 million; (5) Trust Fund and settlement for redemption of shares of Php5,912 million; (6) net payment of capital expenditures under long-term financing of Php1,471 million; and (7) settlements of derivative financial instruments of Php1,126 million.

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

Operating Activities

Our consolidated net cash flows from operating activities increased by Php1,161 million, or 1%, to Php80,370 million in 2012 from Php79,209 million in 2011, primarily due to an increase in the Digitel Group's net cash from operating activities by Php11,317 million, lower settlement of accounts payable and other various liabilities and lower corporate taxes paid, partially offset by lower operating income and lower collection of receivables.

Cash flows provided by operating activities of our BPO business in 2012 amounted to Php1,926 million, an increase of Php13,139 million, or 117%, as against cash flows used in operating activities of Php11,213 million 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. Conversely, cash flows provided by operating activities of our fixed line business decreased by Php11,073 million, or 31%, to Php24,402 million in 2012 from Php35,475 million in 2011, primarily due to lower operating income, lower collection of receivables and higher contribution to the pension plan, partially offset by lower level of settlement of other current liabilities. Cash flows from operating activities of our wireless business also decreased by Php852 million, or 2%, to Php54,119 million in 2012 from Php54,971 million 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, lower level of settlement of other current liabilities and lower corporate taxes paid.

Investing Activities

Consolidated net cash used in investing activities amounted to Php39,058 million in 2012, an increase of Php9,346 million, or 31%, from Php29,712 million in 2011, primarily due to the combined effects of the following: (1) proceeds from disposal of investments in 2011 of Php15,136 million;

(2) higher payment for purchase of investments by Php11,296 million in 2012; (3) the increase in capital expenditures by Php5,189 million; (4) the lower proceeds from disposal of property, plant and equipment of Php324 million; (5) lower net proceeds from maturity of short-term investments by Php91 million; (6) higher net proceeds from disposal of investment available for sale by Php18,741 million in 2012; (7) proceeds from the sale of net assets held for sale of Php1,913 million; (8) payment for contingent consideration arising from business acquisition of Php1,910 million in 2011; and (9) higher dividends received by Php264 million.

Our consolidated capital expenditures in 2012 totaled Php36,396 million, an increase of Php5,189 million, or 17%, as compared with Php31,207 million in 2011, primarily due to increases in Smart and its subsidiaries' capital spending, and the Digitel Group's capital spending, partially offset by the decrease in PLDT's capital spending. Smart and its subsidiaries' capital spending of Php19,152 million in 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 Php12,269 million in 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 Php3,753 million in 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 Php612 million in 2012 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance 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 2012 amounted to Php784 million, an increase of Php264 million, or 51%, as compared with Php520 million in 2011. The dividends received in 2012 were mostly from Beacon and Philweb while dividends received in 2011 were mostly from Meralco and Philweb.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php48,628 million, an increase of Php8,424 million, or 21% as compared with Php40,204 million in 2011, resulting largely from the combined effects of the following: (1) increase in repayments of long-term debt and notes payable by Php35,012 million; (2) Trust Fund and settlement for redemption of shares of Php5,912 million; (3) higher net settlement of capital expenditures under long-term financing by Php4,351 million; (4) higher settlements of derivative financial instruments by Php494 million; (5) higher proceeds from the issuance of long-term debt and notes payable by Php32,544 million; (6) lower cash dividend payments by Php4,664 million; and (7) higher proceeds from issuance of capital stock by Php225 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the year ended December 31, 2012 amounted to Php50,319 million and Php1,825 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 Php50,068 million and Php5,355 million, respectively, in 2012.

Our consolidated long-term debt increased by Php1,626 million, or 1%, to Php115,792 million as at December 31, 2012 from Php114,166 million as at 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 Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011. The long-term debt levels of PLDT and Smart increased by 6% and 3% to Php59,084 million and Php38,079 million, respectively, as at December 31, 2012 as compared with December 31, 2011.

On March 7, 2012, PLDT signed a US$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the facility agent. Proceeds from the facility will be used to finance capital expenditures and/or to refinance PLDT's existing obligations which were also used to finance capital expenditures for network expansion and improvement programs. The facility is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the facility agreement, with final repayment on March 7, 2017. The amount of US$150 million, or Php6,162 million, has been fully drawn and remained outstanding as at December 31, 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 Php1,027 million, was fully drawn on May 29, 2012 and remained outstanding as at December 31, 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 December 31, 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 December 31, 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$13 million, or Php551 million, has been presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying consolidated financial statements for further discussion.

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 December 31, 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 December 31, 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 drawn on various dates in 2012 in the total amount of US$50 million. The amount of US$49 million, or Php2,025 million, net of unamortized debt discount, remained outstanding as at December 31, 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 December 31, 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 December 31, 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 December 31, 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. The amount of Php200 million was fully drawn on October 9, 2012 and remained outstanding as at December 31, 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. The facility was fully drawn on January 11, 2013.

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 seven-year notes amounting to Php4,610 million and Series B ten-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 December 31, 2012.

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance 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. The amount of Php1,000 million was drawn and remained outstanding as at December 31, 2012.

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 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 November 22, 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 issued date and the balance payable upon maturity on November 22, 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 Php6,200 million remained outstanding as at December 31, 2012.

On December 17, 2012, Smart signed a Php3,000 million term loan facility with LBP to finance capital expenditures for its network upgrade and expansion program. The facility is a seven-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 94% payable upon maturity. The amount of Php1,000 million was partially drawn on December 20, 2012 and remained outstanding as at December 31, 2012.

On January 16, 2013, PLDT signed a US$300 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 January 6, 2018. No amount has been drawn under the facility.

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 audited 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 December 31, 2012, the outstanding balance of DMPI loans covered by PLDT guarantees is Php15,680 million. There are no outstanding Digitel loans covered by PLDT guarantees as at December 31, 2012.

Approximately Php66,007 million principal amount of our consolidated outstanding long-term debt as at December 31, 2012 is scheduled to mature over the period from 2013 to 2016. Of this amount, Php21,313 million is attributable to PLDT, Php30,725 million to Smart and Php13,969 million to the Digitel Group.

For a complete discussion of our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying audited 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 December 31, 2012, we were in compliance with all of our debt covenants.

See *Note 20 – Interest-bearing Financial Liabilities – Debt Covenants* to the accompanying audited 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 2012 amounted to Php36,934 million as compared with Php41,598 million paid to shareholders in 2011.

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

	Date			Amount	
Earnings	**Approved**	**Record**	**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
				189.00	38,549
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock(1)	Various	Various	Various	–	49
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	414
Charged to Retained Earnings					Php39,012
2012					
Common					
Regular Dividend	August 7, 2012	August 31, 2012	September 28, 2012	60.00	Php12,964
Regular Dividend	March 5, 2013	March 19, 2013	April 18, 2013	60.00	12,963
Special Dividend	March 5, 2013	March 19, 2013	April 18, 2013	52.00	11,235
					37,162
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock(1)	November 6, 2012	November 20, 2012	December 15, 2012	–	49
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	–
Voting Preferred Stock	December 4, 2012	December 19, 2012	January 15, 2013		2
Charged to Retained Earnings					Php37,213

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

See *Note 19 – Equity* to the accompanying audited 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 December 31, 2012. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for 2012 and 2011. See to *Note 8 – Earnings Per Common Share, Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying audited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php342 million and Php913 million as at December 31, 2012 and 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 audited consolidated financial statements.

The following table sets forth the estimated consolidated fair values of our financial assets and liabilities recognized as at December 31, 2012 and September 30, 2012:

	Fair Values	
	December 31, 2012 (Audited)	September 30, 2012 (Unaudited)
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial investments		
Listed equity securities	Php89	Php89
Unlisted equity securities	5,562	5,556
Investments in debt securities	219	154
Advances and refundable deposits – net of current portion	912	920
Total noncurrent financial assets	6,782	6,719
Current Financial Assets		
Cash and cash equivalents	37,161	38,634
Short-term investments	574	570
Trade and other receivables – net	16,379	17,389
Derivative financial assets	–	80
Current portion of investment in debt securities	150	376
Current portion of advances and refundable deposits	7,915	7,934
Total current financial assets	62,179	64,983
Total Financial Assets	**Php68,961**	**Php71,702**
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php110,440	Php112,388
Derivative financial liabilities	2,802	3,386
Customers' deposits	2,200	2,126
Deferred credits and other noncurrent liabilities	18,176	17,041
Total noncurrent financial liabilities	133,618	134,941
Current Financial Liabilities		
Accounts payable	29,027	25,042
Accrued expenses and other current liabilities	57,949	48,338
Interest-bearing financial liabilities	12,989	21,895
Derivative financial liabilities	418	1,247
Dividends payable	827	891
Total current financial liabilities	101,210	97,413
Total Financial Liabilities	**Php234,828**	**Php232,354**

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the year ended December 31, 2012 and for the nine months ended September 30, 2012:

	December 31, 2012	September 30, 2012
	(in millions)	
Profit and Loss		
From continuing operations		
Interest income	Php1,370	Php1,019
Losses on derivative financial instruments – net	(1,981)	(1,532)
Accretion on financial liabilities	(1,053)	(795)
Interest on loans and other related items	(6,343)	(4,678)
Discontinued operations		
Interest income	16	12
Income on derivative financial instruments – net	28	28
Interest on loans and other related items	(24)	(23)
Other Comprehensive Income		
Net fair value gains on cash flow hedges	92	1,352
Net gains on available-for-sale financial investments – net of tax	23	8

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 2012 and 2011 was 3.1% and 4.8%, 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 of 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 was 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 a 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 370 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 held 99.54% of the outstanding capital of Digitel as at December 31, 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 had 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 99.51% 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. Smart filed a Tender Offer Report with the Philippine SEC on March 15, 2012. The tender offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares or 43.4% of PCEV's noncontrolling shares tendered, thereby increasing Smart's ownership to 99.7% of PCEV's outstanding common stock at that time. The aggregate cost of the Tender Offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV, on the other hand, filed with the PSE its petition for voluntary delisting on March 19, 2012. 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 decreased to around 556 thousand from 11,683 million (exclusive of treasury shares).

As at December 31, 2012, PCEV's outstanding shares of common stock was 556 thousand (exclusive of treasury shares) and the number of holders of such shares was 130. Smart's percentage ownership in PCEV was 99.8% as at December 31, 2012.

PCEV's Additional Investment in Beacon

On January 20, 2012, PCEV subscribed 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 October 25, 2011, PCEV transferred to Beacon its remaining investment in 68.8 million of Meralco's common shares for a total cash consideration of Php15,136 million. PCEV also subscribed to 1,199 million Beacon preferred shares of the same amount. The transfer of the Meralco shares was implemented by a cross sale through the PSE.

Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million Beacon preferred shares to MPIC for a total consideration of Php3,563 million. In this instance, the sale of Beacon preferred shares was deemed between non-related entities. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

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. The 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.

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, or 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, or Voting Preferred Shares, subscribed at a subscription price of Php1.00 per share, or a total subscription price of Php150 million. 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. Consequently, on October 16, 2012, PLDT issued 150 million Voting Preferred Shares to the Subscriber. Following the issuance of 150 million Voting Preferred Shares, the voting percentage of NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group were 12%, 15% and 5%, respectively, as at December 31, 2012. See "— Matters Relating to Gamboa Case" below, *Note 1 – Corporate Information, Note 19 – Equity – Voting Preferred Stock* and *Note 26 – Provisions and Contingencies – Matters Relating to Gamboa Case* to the accompanying audited consolidated financial statements for further discussion.

Redemption of Preferred Stock

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 Php2.3 billion for unclaimed dividends on SIP Preferred Shares, or a total amount of Php8.2 billion, to fund the redemption price of 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 Php63 thousand for unclaimed dividends on Series GG Shares, or a 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 Php279 million was withdrawn from the Trust Account, representing total payments on redemption as at December 31, 2012. The balance of the Trust Account of Php7,884 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 December 31, 2012.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007 effective on May 16, 2013. The record date for purpose of determining the holders of the outstanding Series HH shares issued in 2007 subject to redemption, or Holder of Series GG Shares issued in 2007, was fixed on February 14, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the Holders of Series HH Shares issued in 2007 as at February 14, 2013 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 May 16, 2012, or the Redemption Price of Series HH Shares issued in 2007.

PLDT expects to similarly redeem the outstanding shares of Series HH issued in 2008 and Series 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 audited consolidated financial statements for further details.

Corporate Merger of mySecureSign, Inc. and ePLDT

In April 2012, the Board of Directors of mySecureSign, Inc., or MSSI, and ePLDT approved the plan of merger between 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 audited 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, a wholly-owned entity of the PLDT Beneficial Trust Fund, or BTF.

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

The PLDT Board of Directors confirmed the investment in the MediaQuest PDRs, which will give ePLDT a 40% economic interest in Mediascape, Inc. As at March 5, 2013, the PDRs have not yet been issued.

MediaQuest is the parent company of Mediascape, Inc., which operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV". Cignal TV is now the largest DTH Pay-TV operator in the Philippines, with over 440 thousand subscribers as at December 31, 2012.

On March 5, 2013, the PLDT Board of Directors approved a Php3.6 billion investment by ePLDT in another PDR to be issued by MediaQuest with Satventures, Inc., or Satventures, common shares as the underlying shares, which will give ePLDT a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Mediascape. On the same date, ePLDT was also authorized by the PLDT Board of Directors to invest in another PDR to be issued by MediaQuest with Hastings Holdings, Inc., or Hastings, common shares as underlying shares at a total subscription price of Php1.95 billion. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including minority positions in the Philippine Star, the Philippine Daily Inquirer, and BusinessWorld. As a result of this investment, ePLDT will have a 100% economic interest in Hastings.

The PLDT Group's financial investment in Mediascape is consistent with the PLDT Group's overall strategy of broadening its distribution platforms and increase the Group's ability to deliver multi-media content to its customers across the Group's broadband and mobile networks. It mirrors as well similar investments in media assets by other leading telecommunications companies worldwide.

See *Note 10 – Investments in Associates and Joint Ventures and Deposit – Deposit for Future PDRs Subscritpion* to the accompanying audited 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 398 million shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, which will be completed by the end of 2013. Philweb shall have the unilateral option to accelerate the acquisition of the portion of the subject shares corresponding to the second to fourth tranches upon prior written notice of five days to ePLDT. The rights (including the rights to receive dividend) to the first to fourth tranches of the subject shares shall belong to Philweb after the closing of the sale of each tranche. The first tranche, which was transacted on July 13, 2012, was for 93.5 million common shares for a purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million.

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 PCC, as the designee of Philweb notified ePLDT of its desire to exercise its option to accelerate the acquisition of the portion of the Philweb shares corresponding to 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, which was for 93.5 million common shares for a purchase price of Php1 billion, was completed on October 22, 2012.

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.

See *Note 10 – Investments in Associates and Joint Ventures and Deposit – Investment of ePLDT in Philweb* to the accompanying audited consolidated financial statements for further discussion.

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

On October 12, 2012, ePLDT, IP Ventures, Inc., and IPVG Employees, Inc., entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of 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™. Our investment in IPCDSI allows us to complete our multi-tiered data center product suite and expand our cloud solutions business.

ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012, ePLDT acquired an additional 3.63% equity interest in AGS from its minority shareholders for a consideration of Php3 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 97.1%.

Subsequently, in January 2013, ePLDT further acquired an additional 2.04% equity interest in AGS from its minority shareholders for a consideration of Php2 million, thereby increasing ePLDT's ownership interest to 99.2%.

See *Note 2 – Summary of Significant Accounting Policies* to the accompanying audited 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*), or 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"). 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 was 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 stock into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments 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 Gamboa Case. On October 18, 2012, the Decision became final and executory.

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 the Subscriber. On October 15, 2012, PLDT and the Subscriber executed a Subscription Agreement pursuant to which PLDT agreed to issue to the Subscriber 150 million Voting Preferred Shares subscribed at a subscription price of Php1.00 per share, or a 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 Voting Preferred Shares, PLDT's foreign ownership decreased from 58.4% of outstanding common shares as at October 15, 2012 to 34.5% of outstanding Voting Stocks (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 audited consolidated financial statements.

ANNEX I – AGING OF ACCOUNTS RECEIVABLE

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

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(in millions)		
Retail subscribers	Php10,568	Php2,164	Php880	Php265	Php7,259
Corporate subscribers	8,100	1,155	953	567	5,425
Foreign administrations	4,960	828	1,148	857	2,127
Domestic carriers	1,707	261	174	145	1,127
Dealers, agents and others	4,334	2,966	518	19	831
Total	Php29,669	Php7,374	Php3,673	Php1,853	Php16,769
Less: Allowance for doubtful accounts	13,290				
Total Receivables - net	**Php**16,379				

ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at December 31, 2012 and 2011:

	2012	2011
Current Ratio[(1)]	0.69:1.0	0.61:1.0
Net Debt to Equity Ratio[(2)]	0.52:1.0	0.47:1.0
Net Debt to EBITDA Ratio[(3)]	1.01:1.0	1.47:1.0
Asset to Equity Ratio[(4)]	2.75:1.0	2.63:1.0
Interest Coverage Ratio[(5)]	7.41:1.0	7.59:1.0
Profit Margin[(6)]	21%	20%
Return on Assets[(7)]	9%	9%
Return on Equity[(8)]	24%	25%
EBITDA Margin[(9)]	48%	55%

(1) *Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)*

(2) *Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity.*

(3) *Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the year.*

(4) *Asset to equity ratio is measured as total assets divided by total equity.*

(5) *Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the year, divided by total financing cost for the year.*

(6) *Profit margin is derived by dividing net income for the year with total revenues for the year.*

(7) *Return on assets is measured as net income for the year divided by average total assets.*

(8) *Return on Equity is measured as net income for the year divided by average total equity.*

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

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the fourth quarter of 2012 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

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

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

Signature and Title: June Cheryl Cabal-Revilla
JUNE CHERYL A. CABAL-REVILLA
First Vice President and Controller
(Principal Accounting Officer)

Date: March 5, 2013