

SEC Number **PW-55**

File Number

**PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY**

(Company's Full Name)

**Ramon Cojuangco Building
Makati Avenue, Makati City**

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

September 30, 2011

Period Ended Date

Not Applicable

(Secondary License Type and File Number)



November 3, 2011

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the nine (9) months ended September 30, 2011.

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.

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

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

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

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Month Day Tuesday
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

2,181,658
As of September 30, 2011
Total No. of Stockholders

Total Amount of Borrowings
N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

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Document I.D.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2011
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Philippine Long Distance Telephone Company
Exact name of registrant as specified in its charter
5. Republic of the Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: _____ (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721
Address of registrant's principal office Postal Code
8. (632) 816-8556
Registrant's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	186,756,672 shares as at September 30, 2011
11. Are any or all of these securities listed on the Philippine Stock Exchange?
Yes [] No []
12. Check whether the registrant
 - (a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):
Yes [] No []
 - (b) has been subject to such filing requirements for the past 90 days.
Yes [] No []

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Our consolidated financial statements as at September 30, 2011 (unaudited) and December 31, 2010 (audited) and for the nine months ended September 30, 2011 and 2010 (unaudited) and related notes (pages F-1 to F-120) are filed as part of this report on Form 17-Q.

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

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

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

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to “Philippine pesos,” “Php” or “pesos” are to the lawful currency of the Philippines; all references to “U.S. dollars,” “US\$” or “dollars” are to the lawful currency of the United States; all references to “Japanese yen,” “JP¥” or “yen” are to the lawful currency of Japan and all references to “Euro” or “€” are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.80 to US\$1.00, the volume weighted average exchange rate as at September 30, 2011 quoted through the Philippine Dealing System.

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

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



Financial Highlights and Key Performance Indicators

	September 30, 2011	December 31, 2010	Increase (Decrease)	
	(Unaudited)	(Audited)	Amount	%
(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)				
Consolidated Statements of Financial Position				
Total assets	Php266,870	Php277,815	(Php10,945)	(4)
Property, plant and equipment – net	157,186	163,184	(5,998)	(4)
Cash and cash equivalents and short-term investments	33,275	37,347	(4,072)	(11)
Total equity attributable to equity holders of PLDT	85,994	97,069	(11,075)	(11)
Total debt	90,703	89,646	1,057	1
Net debt ⁽¹⁾ to equity ratio	0.67x	0.54x	–	–
	Nine Months Ended September 30, 2011	2010	Increase (Decrease)	
	(Unaudited)		Amount	%
Consolidated Income Statements				
Revenues	Php105,026	Php108,272	(Php3,246)	(3)
Expenses	64,345	64,916	(571)	(1)
Other expenses	355	324	31	10
Income before income tax	40,326	43,032	(2,706)	(6)
Net income for the period	30,607	32,058	(1,451)	(5)
Net income attributable to equity holders of PLDT:				
Reported net income	30,618	31,988	(1,370)	(4)
Core income	30,602	31,423	(821)	(3)
EBITDA	61,071	63,813	(2,742)	(4)
EBITDA margin ⁽²⁾	59%	60%	–	–
Reported earnings per common share:				
Basic	162.11	169.38	(7.27)	(4)
Diluted	162.06	169.38	(7.32)	(4)
Core earnings per common share ⁽³⁾ :				
Basic	162.02	166.36	(4.34)	(3)
Diluted	161.98	166.36	(4.38)	(3)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	54,987	54,026	961	2
Net cash used in investing activities	14,360	15,502	(1,142)	(7)
<i>Capital expenditures</i>	14,548	16,923	(2,375)	(14)
Net cash used in financing activities	44,633	49,676	(5,043)	(10)
Operational Data				
Number of cellular subscribers	47,736,961	44,112,343	3,624,618	8
Number of fixed line subscribers	1,868,759	1,839,962	28,797	2
Number of broadband subscribers:	2,299,815	1,990,694	309,121	16
<i>Fixed Line</i>	725,232	630,984	94,248	15
<i>Wireless</i>	1,574,583	1,359,710	214,873	16
Number of employees:	29,298	29,624	(326)	(1)
<i>Fixed Line</i>	7,449	8,047	(598)	(7)
<i>Wireless</i>	5,210	5,494	(284)	(5)
<i>Information and Communications Technology</i>	16,639	16,083	556	3
Exchange Rates – per US\$				
	Month-end rates		Weighted average rates during the period	
September 30, 2011	Php43.80		Php43.26	
December 31, 2010	43.81		45.12	
September 30, 2010	43.92		45.60	
December 31, 2009	46.43		47.64	

⁽¹⁾ Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable).

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

⁽³⁾ Core earnings per common share, or EPS, is measured as core income divided by the weighted average number of common shares for the period.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into business units based on our products and services and have three 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, and Connectivity Unlimited Resource Enterprise, 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 Subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. and Subsidiaries, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc; knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group; customer relationship management provided by SPi CRM Inc., or SPi CRM; internet access and online gaming services provided by Infocom Technologies, Inc. (on July 1, 2011, ePLDT transferred the internet business of Infocom to PLDT), Digital Paradise, Inc., or Digital Paradise (on April 1, 2011, ePLDT sold its entire 75% stake in Digital Paradise), netGames, Inc. and Level Up!, Inc., or Level Up! (on July 11, 2011, ePLDT sold its entire 57.51% interest in Level Up!); and bills printing and other value-added services, or VAS, provided by ePDS, Inc., or ePDS (on August 24, 2011, ePLDT increased its equity interest in ePDS from 50% to 67%).

Performance Indicators

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

EBITDA

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income. EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. EBITDA is presented also as a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance

with that of other companies in the technology, media and telecommunications sector. We also present EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Companies in the technology, media and telecommunications sector have historically reported EBITDA as a supplement to financial measures in accordance with PFRS. EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with PFRS. Unlike net income, EBITDA does not include depreciation and amortization or financing costs and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using EBITDA as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in EBITDA. Our calculation of EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Core Income

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

Management's Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the nine months ended September 30, 2011 and 2010 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(in millions)	
Consolidated EBITDA	Php61,071	Php63,813
Amortization of intangible assets	(207)	(268)
Depreciation and amortization	(20,176)	(19,953)
Asset impairment on non-financial assets	(7)	(236)
	<u>40,681</u>	<u>43,356</u>
Equity share in net earnings of associates and joint ventures	1,520	1,419
Interest income	1,013	914
Gains (losses) on derivative financial instruments – net	626	(495)
Foreign exchange gains – net	106	1,667
Financing costs – net	(4,772)	(5,051)
Other income	1,152	1,222
	<u>40,326</u>	<u>43,032</u>
Consolidated income before income tax	(9,719)	(10,974)
Provision for income tax	<u> </u>	<u> </u>
Consolidated net income for the period	<u>Php30,607</u>	<u>Php32,058</u>

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the nine months ended September 30, 2011 and 2010:

	2011	2010
	(in millions)	
Consolidated core income for the period	Php30,602	Php31,423
Gains (losses) on derivative financial instruments – net, excluding hedge cost	894	(137)
Foreign exchange gains – net	100	1,678
Core income adjustment on equity share in net earnings of associates and joint ventures	(453)	(282)
Others	(364)	(232)
Net tax effect of aforementioned adjustments	(161)	(462)
	<u>30,618</u>	<u>31,988</u>
Net income attributable to equity holders of PLDT	(11)	70
Net income (loss) attributable to non-controlling interests	<u> </u>	<u> </u>
Consolidated net income for the period	<u>Php30,607</u>	<u>Php32,058</u>

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2011 and 2010. Majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated					
	(in millions)									
For the nine months ended September 30, 2011										
Revenues	Php68,280	Php35,687	Php8,520	(Php7,461)	Php105,026					
Expenses	36,963	27,383	7,656	(7,657)	64,345					
Other income (expenses)	310	(966)	497	(196)	(355)					
Income before income tax	31,627	7,338	1,361	–	40,326					
Provision for income tax	7,591	2,028	100	–	9,719					
Net income for the period/Segment profit for the period	24,036	5,310	1,261	–	30,607					
EBITDA for the period	41,940	17,395	1,540	196	61,071					
EBITDA margin for the period ⁽¹⁾	62%	49%	19%	–	59%					
Core income for the period	24,926	4,649	1,027	–	30,602					
For the nine months ended September 30, 2010										
Revenues	71,515	37,043	8,261	(8,547)	108,272					
Expenses	37,407	28,291	7,931	(8,713)	64,916					
Other income (expenses)	1,472	(1,670)	40	(166)	(324)					
Income before income tax	35,580	7,082	370	–	43,032					
Provision for (benefit from) income tax	8,983	2,011	(20)	–	10,974					
Net income for the period/Segment profit for the period	26,597	5,071	390	–	32,058					
EBITDA for the period	44,323	18,189	1,135	166	63,813					
EBITDA margin for the period ⁽¹⁾	63%	49%	14%	–	60%					
Core income for the period	26,242	4,686	495	–	31,423					
Increase (Decrease)										
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in millions)									
Revenues	(Php3,235)	(5)	(Php1,356)	(4)	Php259	3	Php1,086	(13)	(Php3,246)	(3)
Expenses	(444)	(1)	(908)	(3)	(275)	(3)	1,056	(12)	(571)	(1)
Other income (expenses)	(1,162)	(79)	704	(42)	457	1,143	(30)	18	(31)	10
Income before income tax	(3,953)	(11)	256	4	991	268	–	–	(2,706)	(6)
Provision for income tax	(1,392)	(15)	17	1	120	600	–	–	(1,255)	(11)
Net income for the period/Segment profit for the period	(2,561)	(10)	239	5	871	223	–	–	(1,451)	(5)
EBITDA for the period	(2,383)	(5)	(794)	(4)	405	36	30	18	(2,742)	(4)
Core income for the period	(1,316)	(5)	(37)	(1)	532	107	–	–	(821)	(3)

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

On a Consolidated Basis

We registered consolidated revenues of Php105,026 million in the first nine months of 2011, a decrease of Php3,246 million, or 3%, as compared with Php108,272 million in the same period in 2010, primarily due to a decline in our service revenues by Php3,471 million as a result of decreases in cellular and satellite revenues from our wireless business, lower fixed line business revenues particularly international and national long distance, and local exchange services, and ICT's lower internet and online gaming business revenues. These were partly offset by the increase in data and other network services of our fixed line business and higher revenues from knowledge processing solutions, customer relationship management and data center and others of our ICT business.

The following table shows the breakdown of our consolidated revenues for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php68,280	65	Php71,515	66	(Php3,235)	(5)
Fixed line	35,687	34	37,043	34	(1,356)	(4)
Information and communications technology	8,520	8	8,261	8	259	3
Inter-segment transactions	(7,461)	(7)	(8,547)	(8)	1,086	(13)
Consolidated	Php105,026	100	Php108,272	100	(Php3,246)	(3)

Consolidated expenses decreased by Php571 million, or 1%, to Php64,345 million in the first nine months of 2011 from Php64,916 million in the same period in 2010, largely as a result of decreases in compensation and employee benefits, rent, asset impairment, taxes and licenses, and amortization of intangible assets, partly offset by higher selling and promotions, professional and other contracted services, depreciation and amortization, repairs and maintenance, and insurance and security services.

The following table shows the breakdown of our consolidated expenses for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php36,963	57	Php37,407	58	(Php444)	(1)
Fixed line	27,383	43	28,291	43	(908)	(3)
Information and communications technology	7,656	12	7,931	12	(275)	(3)
Inter-segment transactions	(7,657)	(12)	(8,713)	(13)	1,056	(12)
Consolidated	Php64,345	100	Php64,916	100	(Php571)	(1)

Consolidated other expenses in the first nine months of 2011 amounted to Php355 million, an increase of Php31 million, or 10%, from Php324 million in the same period in 2010 primarily due to the combined effects of the following: (i) a decrease in net foreign exchange gains by Php1,561 million due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) a decrease in other income by Php70 million mainly due to net loss on disposal of fixed assets of Php12 million in the first nine months of 2011 as against net gain on disposal of fixed assets of Php552 million in the same period in 2010, partially offset by pension benefit income recognized by PLDT; (iii) higher interest income by Php99 million due to a higher average level of peso short-term investments and a higher average peso interest rate partially offset by the impact of the appreciation of the Philippine peso on dollar placements; (iv) net increase in equity share in net earnings of associates and joint ventures by Php101



million; (v) a decrease in net financing costs by Php279 million mainly due to lower interest on loans and other related items on account of lower average loan balances across our businesses, partially offset by higher accretion on amortization of debt discount and higher financing charges; and (vi) net gains on derivative financial instruments of Php626 million in the first nine months of 2011 as against a net loss of Php495 million in the same period in 2010 mainly due to the effect of wider U.S. dollar and peso interest rate differentials and lower level of appreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in the first nine months of 2011.

The following table shows the breakdown of our consolidated other expenses for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php310	(87)	Php1,472	(454)	(Php1,162)	(79)
Fixed line	(966)	272	(1,670)	515	704	(42)
Information and communications technology	497	(140)	40	(12)	457	1,143
Inter-segment transactions	(196)	55	(166)	51	(30)	18
Consolidated	(Php355)	100	(Php324)	100	(Php31)	(10)

Consolidated net income decreased by Php1,451 million, or 5%, to Php30,607 million in the first nine months of 2011 from Php32,058 million in the same period in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php3,246 million; (ii) an increase in consolidated other expenses by Php31 million; (iii) a decrease in consolidated expenses by Php571 million; and (iv) a decrease in consolidated provision for income tax by Php1,255 million, which was mainly due to lower taxable income from our wireless business. Our consolidated basic and diluted EPS decreased to Php162.11 and Php162.06 in the first nine months of 2011, respectively, from consolidated basic and diluted EPS of Php169.38 in the same period in 2010. Our weighted average number of outstanding common shares was approximately 186.8 million in each of the nine months ended September 30, 2011 and 2010.

The following table shows the breakdown of our consolidated net income for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php24,036	79	Php26,597	83	(Php2,561)	(10)
Fixed line	5,310	17	5,071	16	239	5
Information and communications technology	1,261	4	390	1	871	223
Consolidated	Php30,607	100	Php32,058	100	(Php1,451)	(5)

EBITDA

Our consolidated EBITDA was Php61,071 million in the first nine months of 2011, a decrease of Php2,742 million, or 4%, as compared with Php63,813 million in the same period in 2010 primarily due to a decline in service revenues across our businesses, partly offset by lower cash operating expenses, mainly compensation and employee benefits, rent, and taxes and licenses, and lower provision for uncollectible receivables.



The following table shows the breakdown of our consolidated EBITDA for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php41,940	69	Php44,323	69	(Php2,383)	(5)
Fixed line	17,395	28	18,189	29	(794)	(4)
Information and communications technology	1,540	3	1,135	2	405	36
Inter-segment transactions	196	–	166	–	30	18
Consolidated	Php61,071	100	Php63,813	100	(Php2,742)	(4)

Core Income

Our consolidated core income was Php30,602 million in the first nine months of 2011, a decrease of Php821 million, or 3%, as compared with Php31,423 million in the same period in 2010 primarily due to a decrease in consolidated revenues, partially offset by decreases in consolidated provision for income tax, consolidated expenses and consolidated other expenses. Our consolidated basic core EPS also decreased to Php162.02 in the first nine months of 2011 from Php166.36 in the same period in 2010 and our consolidated diluted core EPS decreased to Php161.98 in the first nine months of 2011 from Php166.36 in the same period in 2010.

The following table shows the breakdown of our consolidated core income for the nine months ended September 30, 2011 and 2010 by business segment:

	2011	%	2010	%	Change	
					Amount	%
	(in millions)					
Wireless	Php24,926	82	Php26,242	83	(Php1,316)	(5)
Fixed line	4,649	15	4,686	15	(37)	(1)
Information and communications technology	1,027	3	495	2	532	107
Consolidated	Php30,602	100	Php31,423	100	(Php821)	(3)

On a Business Segment Basis

Wireless

Revenues

Revenues generated from our wireless business amounted to Php68,280 million in the first nine months of 2011, a decrease of Php3,235 million, or 5%, from Php71,515 million in the same period in 2010.

The following table summarizes our total revenues from our wireless business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010 (in millions)		Increase (Decrease)	
					Amount	%
Service Revenues:						
Cellular	Php61,905	91	Php64,819	91	(Php2,914)	(4)
Wireless broadband, satellite and others						
Wireless broadband	4,839	7	4,781	7	58	1
Satellite and others	528	1	845	1	(317)	(38)
	67,272	99	70,445	99	(3,173)	(5)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,008	1	1,070	1	(62)	(6)
Total Wireless Revenues	Php68,280	100	Php71,515	100	(Php3,235)	(5)

Service Revenues

Our wireless service revenues decreased by Php3,173 million, or 5%, to Php67,272 million in the first nine months of 2011 as compared with Php70,445 million in the same period in 2010, mainly as a result of lower revenues from our cellular, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as domestic text messaging services on the back of pervasive multiple SIM card ownership and increasing patronage of social networking sites, partially offset by an increase in international short messaging service, or SMS, as well as higher VAS revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for the first nine months of 2011 were lower as compared with the same period in 2010. We expect the decreasing trend in our cellular revenues, particularly our revenues from traditional voice and text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership and the emerging popularity of social media services. As a percentage of our total wireless revenues, service revenues amounted to 99% in each of the first nine months of 2011 and 2010.

Cellular Service

Our cellular service revenues in the first nine months of 2011 amounted to Php61,905 million, a decrease of Php2,914 million, or 4%, from Php64,819 million in the same period in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in each of the first nine months of 2011 and 2010.



The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the nine months ended September 30, 2011 and 2010:

	2011	2010	Decrease	
			Amount	%
	(in millions)			
Cellular service revenues	Php61,905	Php64,819	(Php2,914)	(4)
By service type	60,082	62,880	(2,798)	(4)
Prepaid	55,453	57,919	(2,466)	(4)
Postpaid	4,629	4,961	(332)	(7)
By component	60,082	62,880	(2,798)	(4)
Voice	29,282	31,350	(2,068)	(7)
Data	30,800	31,530	(730)	(2)
Others ⁽¹⁾	1,823	1,939	(116)	(6)

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

	2011	2010	Increase (Decrease)	
			Amount	%
Cellular subscriber base	47,736,961	44,112,343	3,624,618	8
Prepaid	47,259,793	43,693,765	3,566,028	8
Smart Buddy	26,129,264	25,175,430	953,834	4
Talk 'N Text	19,522,683	18,136,858	1,385,825	8
Red Mobile	1,607,846	381,477	1,226,369	321
Postpaid	477,168	418,578	58,590	14
Smart	476,744	418,578	58,166	14
Red Mobile ⁽¹⁾	424	–	424	100
Systemwide traffic volumes (in millions)				
Calls (in minutes)	27,884	19,653	8,231	42
Domestic	25,580	17,399	8,181	47
Inbound	998	1,086	(88)	(8)
Outbound	24,582	16,313	8,269	51
International	2,304	2,254	50	2
Inbound	2,163	2,098	65	3
Outbound	141	156	(15)	(10)
SMS/Data count (in hits)	243,420	259,492	(16,072)	(6)
Text messages	242,122	258,352	(16,230)	(6)
Domestic	241,677	257,977	(16,300)	(6)
Inbound	6,551	5,855	696	12
Outbound	235,126	252,122	(16,996)	(7)
Bucket-Priced/Unlimited	221,882	238,485	(16,603)	(7)
Standard	13,244	13,637	(393)	(3)
International	445	375	70	19
Inbound	243	143	100	70
Outbound	202	232	(30)	(13)
Value-Added Services	1,273	1,122	151	13
Financial Services	25	18	7	39

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

Revenues attributable to our prepaid cellular services amounted to Php55,453 million in the first nine months of 2011, a decrease of Php2,466 million, or 4%, as compared with Php57,919 million in the same period in 2010. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of the first nine months of 2011 and 2010. Revenues attributable to Smart's postpaid cellular service amounted to Php4,629 million in the first nine months of 2011, a decrease of Php332 million, or 7%, as compared with Php4,961 million earned in the same period in 2010, and accounted for 8% of cellular voice and data revenues in each of the first nine months of 2011 and 2010.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php2,068 million, or 7%, to Php29,282 million in the first nine months of 2011 from Php31,350 million in the same period in 2010 primarily due to a decrease in domestic and international call revenues. Cellular voice services accounted for 47% and 48% of our cellular service revenues in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our cellular voice revenues for the nine months ended September 30, 2011 and 2010:

	2011	2010 (in millions)	Decrease	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php3,665	Php3,897	(Php232)	(6)
Outbound	13,987	14,981	(994)	(7)
	<u>17,652</u>	<u>18,878</u>	<u>(1,226)</u>	<u>(6)</u>
<i>International</i>				
Inbound	10,465	11,159	(694)	(6)
Outbound	1,165	1,313	(148)	(11)
	<u>11,630</u>	<u>12,472</u>	<u>(842)</u>	<u>(7)</u>
Total	<u>Php29,282</u>	<u>Php31,350</u>	<u>(Php2,068)</u>	<u>(7)</u>

Domestic voice service revenues decreased by Php1,226 million, or 6%, to Php17,652 million in the first nine months of 2011 from Php18,878 million in the same period in 2010 primarily due to a decrease in domestic outbound call revenues by Php994 million, or 7%, to Php13,987 million in the first nine months of 2011 from Php14,981 million in the same period in 2010 mainly due to higher traffic volume of unlimited calls at lower yield. In addition, revenues from our domestic inbound voice service decreased by Php232 million, or 6%, to Php3,665 million in the first nine months of 2011 from Php3,897 million in the same period in 2010 as a result of a decrease in inbound call traffic from domestic fixed line and mobile carriers. Domestic outbound call volumes increased by 8,269 million minutes, or 51%, to 24,582 million minutes in the first nine months of 2011 from 16,313 million minutes in the same period in 2010, while domestic inbound call volumes decreased by 88 million minutes, or 8%, to 998 million minutes in the first nine months of 2011 from 1,086 million minutes in the same period in 2010. The overall increase in domestic call traffic was due to higher call volumes resulting from unlimited voice offerings.

International voice service revenues decreased by Php842 million, or 7%, to Php11,630 million in the first nine months of 2011 from Php12,472 million in the same period in 2010 primarily due to a decline in international inbound voice service revenues by Php694 million, or 6%, to Php10,465 million in the first nine months of 2011 from Php11,159 million in the same period in 2010, as well as a decline in international outbound voice service revenues by Php148 million, or 11%, to Php1,165 million in the first nine months of 2011 from Php1,313 million in the same period in 2010. The decline in international voice service revenues was due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar

to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010. Conversely, international inbound and outbound calls totaled 2,304 million minutes in the first nine months of 2011, an increase of 50 million minutes, or 2%, from 2,254 million minutes in the same period in 2010 mainly due to an increase in our cellular subscriber base.

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

- “*Smartalk Lite 15*” which offers unlimited calls from 1:00 a.m. to 11:00 a.m. for Php15 to any subscriber on the Smart network;
- “*Smartalk 20*” which offers one day of unlimited calls for Php20 to the first six Smart network numbers the subscriber calls;
- “*Smartalk 100*” which offers five days of unlimited calls for Php100; and
- “*Smartalk 500*” which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

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

The latest *Smartalk* variant, *Smartalk Unli Call and Text*, which is available in *Php25*, *Php50*, *Php100*, *Php150* and *Php299* denominations, offers unlimited on-net call and text plus a pre-determined number of free texts to all networks depending on the denomination subscribed.

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

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

Smart introduced its new postpaid consumable plan, *Smart All-in Plans*, which enables subscribers to choose from Smart's different services, such as unlimited calling, texting, or mobile browsing, all charged within the subscriber's monthly service fee.

Smart also offers the *Smart Unli Postpaid Plan* which is available in two variants: Unli postpaid299 which offers unlimited text to any subscriber on the Smart network and Unli postpaid599 which offers unlimited call and text to any subscriber on the Smart network.

Smart Unli Data Plan offers unlimited internet browsing on postpaid basis, best suited for subscribers with high data usage. Bundled with the latest gadgets, and with free texts and calls, subscribers may choose among the following packages: Plan1500, Plan2000, Plan3000 and Plan4000.

In September 2011, Smart launched the *Netphone*, Smart's newest Android phone, offering a collection of mobile applications which include easy access to social streaming sites, the Smart Center, a global directory and phone messaging, through the *SmartNet*.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php730 million, or 2%, to Php30,800 million in the first nine months of 2011 from Php31,530 million in the same period in 2010. Cellular data services accounted for 50% and 49% of our cellular service revenues in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data revenues for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease)	
			Amount	%
			(in millions)	
Text messaging				
Domestic	Php26,788	Php28,669	(Php1,881)	(7)
<i>Bucket-Priced/Unlimited</i>	16,590	18,022	(1,432)	(8)
<i>Standard</i>	10,198	10,647	(449)	(4)
International	1,566	995	571	57
	<u>28,354</u>	<u>29,664</u>	<u>(1,310)</u>	<u>(4)</u>
Value-added services				
Internet-based ⁽¹⁾	1,130	541	589	109
MMS-based ⁽²⁾	339	456	(117)	(26)
SMS-based ⁽³⁾	442	526	(84)	(16)
<i>Pasa Load</i> ⁽⁴⁾	503	315	188	60
	<u>2,414</u>	<u>1,838</u>	<u>576</u>	<u>31</u>
Financial services	<u>32</u>	<u>28</u>	<u>4</u>	<u>14</u>
Total	<u>Php30,800</u>	<u>Php31,530</u>	<u>(Php730)</u>	<u>(2)</u>

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

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

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

⁽⁴⁾ Includes revenues from *Pasa Load* and *Dial*SOS*, net of allocated discounts. *Pasa 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.

Text messaging-related services contributed revenues of Php28,354 million in the first nine months of 2011, a decrease of Php1,310 million, or 4%, as compared with Php29,664 million in the same period in 2010, and accounted for 92% and 94% of our total cellular data revenues in the first nine months of 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS traffic although SMS yields have stabilized. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced/unlimited plans totaled Php16,590 million in the first nine months of 2011, a decrease of Php1,432 million, or 8%, as compared with Php18,022 million in the same period in 2010. Standard text messaging revenues decreased by Php449 million, or 4%, to Php10,198 million in the first nine months of 2011 from Php10,647 million in the same period in 2010. On the other hand, the increase in international text messaging revenues was

mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

Bucket-priced/unlimited text messages decreased by 16,603 million, or 7%, to 221,882 million in the first nine months of 2011 from 238,485 million in the same period in 2010. Standard text messages also declined by 393 million, or 3%, to 13,244 million in the first nine months of 2011 from 13,637 million in the same period in 2010.

VAS contributed revenues of Php2,414 million in the first nine months of 2011, an increase of Php576 million, or 31%, as compared with Php1,838 million in the same period in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php589 million, or 109%, to Php1,130 million in the first nine months of 2011 from Php541 million in the same period in 2010, and *Pasa Load* by Php188 million, or 60%, to Php503 million in the first nine months of 2011 from Php315 million in the same period in 2010.

Subscriber Base, ARPU and Churn Rates

As at September 30, 2011, Smart, including *Talk 'N Text* and *Red Mobile* subscribers totaled 47,736,961, an increase of 3,624,618, or 8%, over their combined cellular subscriber base of 44,112,343 as at September 30, 2010. Our cellular prepaid subscriber base grew by 3,566,028, or 8%, to 47,259,793 as at September 30, 2011 from 43,693,765 as at September 30, 2010, and our cellular postpaid subscriber base increased by 58,590, or 14%, to 477,168 as at September 30, 2011 from 418,578 as at September 30, 2010. Prepaid subscribers accounted for 99% each of our total subscriber base as at September 30, 2011 and 2010.

Our net subscriber activations for the nine months ended September 30, 2011 and 2010 were as follows:

	2011	2010	Increase (Decrease)	
			Amount	%
Prepaid	2,045,360	2,800,667	(755,307)	(27)
<i>Smart Buddy</i>	835,821	1,412,616	(576,795)	(41)
<i>Talk 'N Text</i>	555,302	1,086,145	(530,843)	(49)
<i>Red Mobile</i>	654,237	301,906	352,331	117
Postpaid	55,593	(16,965)	72,558	(428)
<i>Smart</i>	55,169	(16,965)	72,134	(425)
<i>Red Mobile</i> ⁽¹⁾	424	-	424	100
Total	2,100,953	2,783,702	(682,749)	(25)

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

Prepaid and postpaid subscribers reflected net activations of 2,045,360 and 55,593, respectively, in the first nine months of 2011 as compared with net activations of 2,800,667 and net reductions of 16,965 in the same period in 2010.

For *Smart Buddy* subscribers, the average monthly churn rate in the first nine months of 2011 and 2010 were 5.1% and 4.9%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.7% and 5.4% in the first nine months of 2011 and 2010, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 14.7% and 79.0% in the first nine months of 2011 and 2010, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 2.3% and 2.4% for the first nine months of 2011 and 2010, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 2011 and 2010:

	Gross ⁽¹⁾		Increase (Decrease)		Net ⁽²⁾		Increase (Decrease)	
	2011	2010	Amount	%	2011	2010	Amount	%
Prepaid								
Smart Buddy	Php199	Php221	(22)	(10)	Php158	Php175	(17)	(10)
Talk 'N Text	124	138	(14)	(10)	103	114	(11)	(10)
Red Mobile	38	7	31	443	32	6	26	433
Prepaid – Blended ⁽³⁾	163	184	(21)	(11)	131	148	(17)	(11)
Postpaid								
Smart	1,581	1,671	(90)	(5)	1,170	1,257	(87)	(7)
Red Mobile ⁽⁴⁾	381	–	381	100	372	–	372	100
Postpaid – Blended ⁽⁵⁾	1,580	1,671	(91)	(5)	1,170	1,257	(87)	(7)
Prepaid and Postpaid Blended ⁽⁶⁾	176	199	(23)	(12)	141	159	(18)	(11)

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

⁽²⁾ Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but excluding inbound roaming revenues, net of discounts and content-provider costs, by the average number of subscribers in the month.

⁽³⁾ The average monthly ARPU of Smart Buddy, Talk 'N Text and Red Mobile.

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

⁽⁵⁾ The average monthly ARPU of Smart and Red Mobile postpaid.

⁽⁶⁾ The average monthly ARPU of all prepaid and postpaid cellular subscribers.

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first nine months of 2011 was Php163, a decrease of 11%, as compared with Php184 in the same period in 2010. The decrease was primarily due to a decline in the average domestic outbound call and text messaging revenue per subscriber, as well as a drop in the average international inbound voice revenue per subscriber in the first nine months of 2011 as compared with the same period in 2010. On a net basis, prepaid blended average monthly ARPU in the first nine months of 2011 was Php131, a decrease of 11%, as compared with Php148 in the same period in 2010.

Postpaid blended gross and net average monthly ARPU decreased to Php1,580 and Php1,170, respectively, in the first nine months of 2011 as compared with Php1,671 and Php1,257, respectively, in the same period in 2010. Prepaid and postpaid gross average monthly blended ARPU was Php176 in the first nine months of 2011, a decrease of 12%, as compared with Php199 in the same period in 2010. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 11% to Php141 in the first nine months of 2011 from Php159 in the same period in 2010.



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

	Prepaid						Postpaid			
	Smart Buddy		Talk 'N Text		Red Mobile		Smart		Red Mobile ⁽¹⁾	
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾
2011										
First Quarter	Php205	Php163	Php129	Php106	Php32	Php27	Php1,610	Php1,205	Php133	Php133
Second Quarter	203	162	126	105	43	37	1,638	1,206	413	413
Third Quarter	188	148	117	97	39	32	1,494	1,100	431	410
2010										
First Quarter	232	184	140	115	11	8	1,686	1,286	–	–
Second Quarter	224	179	141	116	4	3	1,665	1,257	–	–
Third Quarter	207	163	135	112	6	5	1,661	1,229	–	–
Fourth Quarter	215	171	140	116	22	19	1,702	1,256	–	–

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

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

⁽³⁾ Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php58 million, or 1%, to Php4,839 million in the first nine months of 2011 from Php4,781 million in the same period in 2010, primarily due to the 16% growth in broadband subscriber base, partially offset by the decline in ARPU.

SBI offers a number of wireless broadband services and had a total of 1,556,633 subscribers as at September 30, 2011, an increase of 218,668 subscribers, or 16%, as compared with 1,337,965 subscribers as at September 30, 2010. Our postpaid wireless broadband subscriber base increased by 17,095 subscribers, or 4%, to 449,599 subscribers as at September 30, 2011 from 432,504 subscribers as at September 30, 2010, while our prepaid wireless broadband subscriber base increased by 201,573 subscribers, or 22%, to 1,107,034 subscribers as at September 30, 2011 from 905,461 subscribers as at September 30, 2010.

SmartBro, SBI's wireless broadband service linked to Smart's wireless broadband-enabled base stations, allows subscribers to connect to the internet using an outdoor aerial antenna installed in a subscriber's home.

SBI offers mobile internet access through *SmartBro Plug-It*, a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity in places where there is Smart network coverage. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants, with prepaid offering 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200*, *Unli Surf100* and *Unli Surf50* for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php317 million, or 38%, to Php528 million in the first nine months of 2011 from Php845 million in the same period in 2010, primarily due to the sale of Mabuhay Satellite's transponders on July 1, 2010 and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php62 million, or 6%, to Php1,008 million in the first nine months of 2011 as compared with Php1,070 million in the same period in 2010 primarily due to the lower quantity of broadband data modems sold.

Expenses

Expenses associated with our wireless business in the first nine months of 2011 amounted to Php36,963 million, a decrease of Php444 million, or 1%, from Php37,407 million in the same period in 2010. A significant portion of this decrease was attributable to lower expenses related to rent, compensation and employee benefits, taxes and licenses, and asset impairment, partially offset by higher expenses related to selling and promotions, depreciation and amortization, and repairs and maintenance. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 54% and 52% in the first nine months of 2011 and 2010, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

	2011		2010		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
	(in millions)					
Depreciation and amortization	Php10,542	29	Php10,127	27	Php415	4
Rent	6,038	16	7,233	19	(1,195)	(17)
Compensation and employee benefits ⁽¹⁾	4,330	12	4,815	13	(485)	(10)
Repairs and maintenance	3,924	11	3,651	10	273	7
Selling and promotions	3,479	9	2,862	8	617	22
Cost of sales	2,759	7	2,748	7	11	–
Professional and other contracted services	2,208	6	2,145	6	63	3
Taxes and licenses	1,174	3	1,324	3	(150)	(11)
Communication, training and travel	700	2	685	2	15	2
Insurance and security services	621	2	593	2	28	5
Asset impairment	430	1	486	1	(56)	(12)
Amortization of intangible assets	81	–	75	–	6	8
Other expenses	677	2	663	2	14	2
Total	Php36,963	100	Php37,407	100	(Php444)	(1)

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

Depreciation and amortization charges increased by Php415 million, or 4%, to Php10,542 million in the first nine months of 2011 on account of additional depreciation relating to decommissioned cellular facilities covered by the network modernization program.

Rent expenses decreased by Php1,195 million, or 17%, to Php6,038 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in satellite rental, partially offset by the increase in cell site, leased line and pole charges. In the first nine months of 2011, we had 6,060 cell sites, 10,466 cellular/mobile broadband base stations and 2,748 fixed wireless broadband-enabled base stations, as compared with 5,778 cell sites, 9,733 cellular/mobile broadband base stations and 2,219 fixed wireless broadband-enabled base stations in the same period in 2010.

Compensation and employee benefits expenses decreased by Php485 million, or 10%, to Php4,330 million primarily due to lower salaries and employee benefits as a result of lower headcount, and lower MRP costs, partially offset by the higher provision for pension benefits and LTIP. Employee headcount decreased to 5,210 in the first nine months of 2011 as compared with 5,494 in the same period in 2010.

Repairs and maintenance expenses increased by Php273 million, or 7%, to Php3,924 million mainly due to higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and other work equipment, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Selling and promotion expenses increased by Php617 million, or 22%, to Php3,479 million primarily due to higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Cost of sales increased by Php11 million to Php2,759 million primarily due to higher cost of handsets sold.

Professional and other contracted service fees increased by Php63 million, or 3%, to Php2,208 million primarily due to the increase in consultancy, contracted service, market research, corporate membership and bill printing fees, partly offset by lower management, customer relationship management service, technical service and outsourced service fees.

Taxes and licenses decreased by Php150 million, or 11%, to Php1,174 million primarily due to lower business-related taxes and license fees.

Communication, training and travel expenses increased by Php15 million, or 2%, to Php700 million primarily due to higher courier charges, travel expenses and fuel consumption for vehicles, partially offset by lower communication, freight and hauling, and training expenses.

Insurance and security services increased by Php28 million, or 5%, to Php621 million primarily due to higher site security expense, partially offset by lower insurance premiums.

Asset impairment decreased by Php56 million, or 12%, to Php430 million primarily due to lower provision for uncollectible receivables.

Amortization of intangible assets increased by Php6 million, or 8%, to Php81 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses increased by Php14 million, or 2%, to Php677 million primarily due to higher various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income for the nine months ended September 30, 2011 and 2010:

	2011	2010	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,370	Php1,285	Php85	7
Interest income	584	520	64	12
Foreign exchange gains – net	60	800	(740)	(93)
Losses on derivative financial instruments – net	–	(1)	1	100
Financing costs – net	(2,044)	(1,992)	(52)	3
Others	340	860	(520)	(60)
Total	Php310	Php1,472	(Php1,162)	(79)

Our wireless business' other income amounted to Php310 million in the first nine months of 2011, a decrease of Php1,162 million, or 79%, from Php1,472 million in the same period in 2010 primarily due to the combined effects of the following: (i) decrease in net foreign exchange gains by Php740 million on account of revaluation of foreign currency-denominated assets and liabilities due to the lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) higher net financing costs by Php52 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level of loan balances, and lower average interest and foreign exchange rates; (iii) increase in interest income by Php64 million mainly due to a higher average level of peso short-term investments and a higher average interest rate in the first nine months of 2011; (iv) increase in equity share in net earnings of associates by Php85 million mainly due to the increase in PCEV's direct and indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; and (v) decrease in other income by Php520 million mainly due to lower gain on disposal of fixed assets, income from insurance claims and consultancy.

For the nine months ended September 30, 2011, Meralco's reported and core income amounted to Php9,951 million and Php11,663 million, respectively, as compared with Php7,966 million and Php9,154 million, respectively, in the same period in 2010. These results were due to the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission as compared with the first nine months of 2010. PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,422 million and Php1,875 million, respectively, in the first nine months of 2011 and Php1,284 million and Php1,566 million, respectively, in the same period in 2010.

Provision for Income Tax

Provision for income tax decreased by Php1,392 million, or 15%, to Php7,591 million in the first nine months of 2011 from Php8,983 million in the same period in 2010 due to lower taxable income and increased savings from the use of the optional standard deduction method in computing for taxable income. The effective tax rate for our wireless business was 24% in the first nine months of 2011 as compared with 25% in the same period in 2010.

Net Income

Our wireless business recorded a net income of Php24,036 million in the first nine months of 2011, a decrease of Php2,561 million, or 10%, from Php26,597 million recorded in the same period in 2010 on account of a decline in wireless revenues by Php3,235 million and a decrease in other income by Php1,162 million, partially offset by lower provision for income tax by Php1,392 million and a decrease in wireless-related expenses by Php444 million.

EBITDA

Our wireless business' EBITDA decreased by Php2,383 million, or 5%, to Php41,940 million in the first nine months of 2011 from Php44,323 million in the same period in 2010 primarily due to a decline in our wireless revenues, partly offset by lower cash operating expenses particularly rent, compensation and employee benefits, and taxes and licenses, as well as lower provision for uncollectible receivables.

Core Income

Our wireless business' core income decreased by Php1,316 million, or 5%, to Php24,926 million in the first nine months of 2011 from Php26,242 million in the same period in 2010 on account of a decrease in wireless revenues and lower other income, partially offset by lower provision for income tax and a decrease in wireless-related expenses.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php35,687 million in the first nine months of 2011, a decrease of Php1,356 million, or 4%, from Php37,043 million in the same period in 2010.

The following table summarizes our total revenues from our fixed line business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Local exchange	Php11,179	31	Php11,559	31	(Php380)	(3)
International long distance	3,546	10	3,987	11	(441)	(11)
National long distance	3,022	9	3,401	9	(379)	(11)
Data and other network	16,369	46	16,605	45	(236)	(1)
Miscellaneous	1,127	3	1,225	3	(98)	(8)
	35,243	99	36,777	99	(1,534)	(4)
Non-Service Revenues:						
Sale of computers, PLP units and SIM cards	444	1	266	1	178	67
Total Fixed Line Revenues	Php35,687	100	Php37,043	100	(Php1,356)	(4)

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php1,534 million, or 4%, to Php35,243 million in the first nine months of 2011 from Php36,777 million in the same period in 2010 due to a decrease across our fixed line service revenues.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php11,179	Php11,559	(Php380)	(3)
Number of fixed line subscribers	1,868,759	1,839,962	28,797	2
Postpaid	1,775,043	1,709,919	65,124	4
Prepaid	93,716	130,043	(36,327)	(28)
Number of fixed line employees	7,449	8,047	(598)	(7)
Number of fixed line subscribers per employee	251	229	22	10

Revenues from our local exchange service decreased by Php380 million, or 3%, to Php11,179 million in the first nine months of 2011 from Php11,559 million in the same period in 2010 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation charges, as well as a decrease in the average number of postpaid wired lines as a result of higher disconnections, partially offset by the increase in postpaid *PLP* lines. *PLP* wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on postpaid and prepaid variants. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 32% in each of the first nine months of 2011 and 2010.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php3,546	Php3,987	(Php441)	(11)
Inbound	3,023	3,398	(375)	(11)
Outbound	523	589	(66)	(11)
International call volumes (in million minutes, except call ratio)	1,425	1,278	147	12
Inbound	1,295	1,123	172	15
Outbound	130	155	(25)	(16)
Inbound-outbound call ratio	10.0:1	7.2:1	-	-

Our total international long distance service revenues decreased by Php441 million, or 11%, to Php3,546 million in the first nine months of 2011 from Php3,987 million in the same period in 2010 primarily due to the decrease in the average settlement rate, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010 and the decrease in outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 10% and 11% in the first nine months of 2011 and 2010, respectively.

Our revenues from inbound international long distance service decreased by Php375 million, or 11%, to Php3,023 million in the first nine months of 2011 from Php3,398 million in the same period in 2010 due to the decrease in the average settlement rate and the 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 inbound call volumes.

Our revenues from outbound international long distance service decreased by Php66 million, or 11%, to Php523 million in the first nine months of 2011 from Php589 million in the same period in 2010 primarily due to the decline in outbound call volumes and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.26 for the nine months ended September 30, 2011 from Php45.60 for the nine months ended September 30, 2010, resulting in a decrease in the average billing rates to Php43.37 in the first nine months of 2011 from Php45.84 in the same period in 2010, partially offset by the increase in average collection rate in dollar terms.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the nine months ended September 30, 2011 and 2010:

	2011	2010	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php3,022	Php3,401	(Php379)	(11)
National long distance call volumes (in million minutes)	787	966	(179)	(19)

Our national long distance service revenues decreased by Php379 million, or 11%, to Php3,022 million in the first nine months of 2011 from Php3,401 million in the same period in 2010 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% in each of the first nine months of 2011 and 2010.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the nine months ended September 30, 2011 and 2010:

	2011	2010	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php16,369	Php16,605	(Php236)	(1)
Domestic	12,094	11,960	134	1
Broadband	7,141	6,327	814	13
DSL	6,930	6,138	792	13
WeRoam	211	189	22	12
Leased Lines and Others	4,953	5,633	(680)	(12)
International				
Leased Lines and Others	4,275	4,645	(370)	(8)
Subscriber base:				
Broadband	743,182	652,729	90,453	14
DSL	725,232	630,984	94,248	15
WeRoam	17,950	21,745	(3,795)	(17)
SWUP	19,490	14,690	4,800	33

Our data and other network services posted revenues of Php16,369 million in the first nine months of 2011, a decrease of Php236 million, or 1%, from Php16,605 million in the same period in 2010 primarily due to a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our domestic leased private line service, and the decrease in international data revenues resulting from the termination of transponder sub-lease agreements with customers, as well as lower revenues from i-Gate and Fibernet, partially offset by an increase in domestic broadband services,

owing to higher revenues from *PLDT DSL*. The percentage contribution of this service segment to our fixed line service revenues accounted for 46% and 45% in the first nine months of 2011 and 2010, respectively.

Domestic

Domestic data services contributed Php12,094 million in the first nine months of 2011, an increase of Php134 million, or 1%, as compared with Php11,960 million in the same period in 2010 mainly due to higher DSL revenues, *Shops.Work Unplugged*, or *SWUP*, and internet protocol-virtual private network, or IP-VPN subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring and outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services accounted for 74% and 72% in the first nine months of 2011 and 2010, 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 Php7,141 million in the first nine months of 2011, an increase of Php814 million, or 13%, from Php6,327 million in the same period in 2010 primarily due to the higher revenue contribution of DSL which contributed revenues of Php6,930 million in the first nine months of 2011 from Php6,138 million in the same period in 2010 as a result of the increase in the number of subscribers. DSL revenues accounted for 42% and 37% of total data and other network service revenues in the first nine months of 2011 and 2010, respectively. DSL subscribers increased by 15% to 725,232 subscribers as at September 30, 2011 from 630,984 subscribers in the same period in 2010. *WeRoam* revenues amounted to Php211 million in the first nine months of 2011, an increase of Php22 million, or 12%, from Php189 million in the same period in 2010 in contrast to a decrease in subscriber base by 17% to 17,950 subscribers in first nine months of 2011 from 21,745 subscribers in the same period in 2010.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at September 30, 2011, *SWUP* has a total subscriber base of 19,490 up by 33% from 14,690 subscribers in the same period in 2010. Leased lines and other data revenues amounted to Php4,953 million in the first nine months of 2011, a decrease of Php680 million, or 12%, from Php5,633 million in the same period in 2010 primarily due to a decrease in Diginet revenues, partially offset by the higher revenues from IP-VPN. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 30% and 34% in the first nine months of 2011 and 2010, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues decreased by Php370 million, or 8%, to Php4,275 million in the first nine months of 2011 from Php4,645 million in the same period in 2010 primarily resulting from the termination of transponder sub-lease agreement with customers, a decrease in revenues from i-Gate, Fibernet and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar, partially offset by the growth in international managed data services. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 26% and 28% in the first nine months of 2011 and 2010, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues decreased by Php98 million, or 8%, to Php1,127 million in the first nine months of 2011 from Php1,225 million in the same period in 2010 mainly due to a decrease in directory advertising and facilities management fees, partially offset by higher rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first nine months of 2011 and 2010.

Non-service Revenues

Non-service revenues increased by Php178 million, or 67%, to Php444 million in the first nine months of 2011 from Php266 million in the same period in 2010 primarily due to the sale of several managed PABX and *OnCall* solution in the first nine months of 2011, no similar transaction was recognized in the same period in 2010, as well as higher computer-bundled sales, partially offset by lower sale of *PLP* units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php27,383 million in the first nine months of 2011, a decrease of Php908 million, or 3%, as compared with Php28,291 million in the same period in 2010. The decrease was primarily due to lower expenses related to compensation and employee benefits, asset impairment, rent, depreciation and amortization, repairs and maintenance, and communication, training and travel, partly offset by higher expenses related to professional and other contracted services, cost of sales, and selling and promotions. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 77% and 76% in the first nine months of 2011 and 2010, respectively.



The following table shows the breakdown of our total fixed line-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php9,084	33	Php9,267	33	(Php183)	(2)
Compensation and employee benefits ⁽¹⁾	7,111	26	7,497	27	(386)	(5)
Repairs and maintenance	3,000	11	3,159	11	(159)	(5)
Professional and other contracted services	2,511	9	2,274	8	237	10
Rent	1,841	7	2,069	7	(228)	(11)
Selling and promotions	959	3	919	3	40	4
Asset impairment	726	3	982	4	(256)	(26)
Taxes and licenses	585	2	608	2	(23)	(4)
Cost of sales	426	2	369	1	57	15
Communication, training and travel	416	2	456	2	(40)	(9)
Insurance and security services	351	1	325	1	26	8
Amortization of intangible assets	7	—	—	—	7	100
Other expenses	366	1	366	1	—	—
Total	Php27,383	100	Php28,291	100	(Php908)	(3)

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

Depreciation and amortization charges decreased by Php183 million, or 2%, to Php9,084 million due to a lower depreciable asset base in the first nine months of 2011 as compared with the same period in 2010.

Compensation and employee benefits expenses decreased by Php386 million, or 5%, to Php7,111 million primarily due to lower salaries and employee benefits as a result of a lower headcount, as well as lower provisions for pension and LTIP costs, partially offset by higher MRP costs. Employee headcount decreased to 7,449 in the first nine months of 2011 as compared with 8,047 in the same period in 2010.

Repairs and maintenance expenses decreased by Php159 million, or 5%, to Php3,000 million primarily due to decreases in maintenance costs on buildings, IT software and electricity costs, partially offset by higher maintenance costs on central office and telecom equipment.

Professional and other contracted services increased by Php237 million, or 10%, to Php2,511 million primarily due to higher consultancy fees, contracted services, management fees and technical service fees, partially offset by lower bill printing and legal fees.

Rent expenses decreased by Php228 million, or 11%, to Php1,841 million due to a decrease in satellite link, international leased circuit and pole rental charges, partially offset by an increase in domestic leased circuit and office rental charges.

Selling and promotion expenses increased by Php40 million, or 4%, to Php959 million primarily due to higher public relations expense, as well as higher spending on advertising and promotions, and commission expenses.

Asset impairment decreased by Php256 million, or 26%, to Php726 million mainly due to lower provision for uncollectible receivables and impairment charges on payphone assets and investment in 2010.

Taxes and licenses decreased by Php23 million, or 4%, to Php585 million as a result of lower business-related taxes.

Cost of sales increased by Php57 million, or 15%, to Php426 million primarily due to the sale of several managed PABX and *OnCall* solutions in the first nine months of 2011; no similar transactions were recognized in the same period in 2010, as well as higher computer-bundled sales in relation to our DSL promotions, partially offset by lower sales of *PLP* units and SIM cards.

Communication, training and travel expenses decreased by Php40 million, or 9%, to Php416 million mainly due to lower training costs, and local travel expenses, partially offset by increases in mailing and courier charges, foreign travel expenses, communication charges and fuel consumption.

Insurance and security services increased by Php26 million, or 8%, to Php351 million primarily due to higher security services, and insurance and bond premiums.

Amortization of intangible assets amounted to Php7 million in the first nine months of 2011 primarily due to amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in January 2011.

Other expenses which pertain to various business and fixed line operational-related expenses remained relatively flat at Php366 million in the first nine months of 2011 and 2010.

Other Income

The following table summarizes the breakdown of our total fixed line-related other expenses for the nine months ended September 30, 2011 and 2010:

	2011	2010	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php626	(Php499)	Php1,125	225
Interest income	404	382	22	6
Foreign exchange gains – net	42	922	(880)	(95)
Financing costs – net	(2,700)	(2,941)	241	(8)
Others	662	466	196	42
Total	(Php966)	(Php1,670)	Php704	(42)

Our fixed line business' other expenses amounted to Php966 million in the first nine months of 2011, a decrease of Php704 million, or 42%, from Php1,670 million in the same period in 2010. The change was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php626 million in the first nine months of 2011 as against net losses on derivative financial instruments of Php499 in the same period in 2010 due to the effect of wider U.S. dollar and peso interest rate differentials and lower level of appreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in the first nine months of 2011; (ii) a decrease in net financing costs by Php241 million due to a decrease in interest expense on loans and related items on account of lower average interest rates and higher capitalized interest; (iii) an increase in other income by Php196 million mainly due to the pension benefit income recognized by PLDT; (iv) an increase in interest income by Php22 million due to a higher average level of peso short-term investments and higher average peso interest rates, partially offset by the impact of the appreciation of the Philippine peso on dollar placements; and (v) a decrease in foreign exchange gains by Php880 million on account of lower gains on net foreign exchange revaluation of foreign currency-denominated assets due to the effect of the appreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax amounted to Php2,028 million in the first nine months of 2011, an increase of Php17 million, or 1%, as compared with Php2,011 million in the same period in 2010 primarily due to higher taxable income. The effective tax rate of our fixed line business was 28% in each of the first nine months of 2011 and 2010.

Net Income

Our fixed line business contributed a net income of Php5,310 million in the first nine months of 2011, an increase of Php239 million, or 5%, as compared with Php5,071 million in the same period in 2010 primarily as a result of lower fixed line-related expenses by Php908 million and a decrease in other expenses by Php704 million, partially offset by the decrease in fixed line revenues by Php1,356 million and higher provision for income tax by Php17 million.

EBITDA

Our fixed line business' EBITDA decreased by Php794 million, or 4%, to Php17,395 million in the first nine months of 2011 from Php18,189 million in the same period in 2010 primarily due to a decline in revenues from all our fixed line services, partly offset by lower cash operating expenses, mainly compensation and employee benefits, rent, and repairs and maintenance, and lower provisions for uncollectible receivables.

Core Income

Our fixed line business' core income decreased by Php37 million, or 1%, to Php4,649 million in the first nine months of 2011 from Php4,686 million in the same period in 2010 primarily as a result of the decrease in fixed line revenues, partially offset by decreases in fixed line expenses and financing costs, and lower provision for income tax.

Information and Communications Technology***Revenues***

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

Our ICT business generated revenues of Php8,520 million in the first nine months of 2011, an increase of Php259 million, or 3%, as compared with Php8,261 million in the same period in 2010. This increase was primarily due to higher revenue contributions from our knowledge processing solutions, data center and other businesses, partially offset by a decline in the revenue contribution of our internet and online gaming, customer relationship management businesses, and point-product sales.



The following table summarizes our total revenues from our ICT business for the nine months ended September 30, 2011 and 2010 by service segment:

	2011	%	2010	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Knowledge processing solutions	Php4,179	49	Php3,876	47	Php303	8
Customer relationship management	2,108	25	2,152	26	(44)	(2)
Internet and online gaming	563	7	780	10	(217)	(28)
Data center and others	1,318	15	1,096	13	222	20
	8,168	96	7,904	96	264	3
Non-Service Revenues:						
Point-product sales	352	4	357	4	(5)	(1)
Total ICT Revenues	Php8,520	100	Php8,261	100	Php259	3

Service Revenues

Service revenues generated by our ICT business amounted to Php8,168 million in the first nine months of 2011, an increase of Php264 million, or 3%, as compared with Php7,904 million in the same period in 2010 primarily as a result of the continued growth in our knowledge processing solutions, and data center and other businesses, partially offset by a decline in our internet and online gaming, and customer relationship management businesses. As a percentage of our total ICT business revenues, service revenues accounted for 96% in each of the first nine months of 2011 and 2010, respectively.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php4,179 million in the first nine months of 2011, an increase of Php303 million, or 8%, from Php3,876 million in the same period in 2010. Dollar revenues increased by 13% partially offset by the appreciation of the Philippine peso to the U.S. dollar by 5%. Knowledge processing solutions business revenues accounted for 51% and 49% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php44 million, or 2%, to Php2,108 million in the first nine months of 2011 from Php2,152 million in the same period in 2010 primarily due to lower dollar-denominated revenues by 2% and the effect of the appreciation of the Philippine peso to the U.S. dollar, partially offset by higher domestic sales by 11%. In total, we own and operate 6,022 seats with an average of 3,358 customer service representatives, or CSRs, in the first nine months of 2011, as compared with 7,163 seats with an average of 4,660 CSRs in the same period in 2010. SPi CRM had six and seven customer relationship management sites as at September 30, 2011 and 2010, respectively. Customer relationship management business revenues accounted for 26% and 27% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business decreased by Php217 million, or 28%, to Php563 million in the first nine months of 2011 from Php780 million in the same period in 2010 mainly due to the disposal of investments in Digital Paradise and Level Up!, as well as the transfer of

the internet business of Infocom to PLDT. In April and July 2011, ePLDT disposed its non-core businesses, Digital Paradise and Level Up!, respectively, resulting to de-consolidation of the aforementioned entities. In addition, also in July 2011, Infocom transferred its internet business to PLDT. This was partially offset by the introduction of a new game and the strong performance of existing major games, higher sales from retail and desk printing transactions, as well as the addition of new clients. Our internet and online gaming business revenues accounted for 7% and 10% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*[™], which provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls, and other data services. Our data center contributed revenues of Php1,318 million in the first nine months of 2011, an increase of Php222 million, or 20%, from Php1,096 million in the same period in 2010 primarily due to an increase in co-location or rental and managed service revenues, and 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 2011). Our data center business revenues accounted for 16% and 14% of total service revenues of our ICT business in the first nine months of 2011 and 2010, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. Non-service revenues generated by our ICT business decreased by Php5 million, or 1%, to Php352 million in the first nine months of 2011 from Php357 million in the same period in 2010 primarily due to the lower revenues from sales of CISCO hardware.

Expenses

Expenses associated with our ICT business totaled Php7,656 million in the first nine months of 2011, a decrease of Php275 million, or 3%, as compared with Php7,931 million in the same period in 2010, primarily due to lower expenses related to amortization of intangible assets, rent, cost of sales, asset impairment, communication, training and travel, selling and promotions, and repairs and maintenance, partially offset by higher expenses related to professional and other contracted services. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 90% and 96% in the first nine months of 2011 and 2010, respectively.

The following table shows the breakdown of our total ICT-related expenses for the nine months ended September 30, 2011 and 2010 and the percentage of each expense item to the total:

	2011	%	2010	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits ⁽¹⁾	Php4,534	59	Php4,533	57	Php1	–
Depreciation and amortization	550	7	559	7	(9)	(2)
Repairs and maintenance	533	7	549	7	(16)	(3)
Rent	455	6	512	6	(57)	(11)
Professional and other contracted services	417	6	377	5	40	11
Cost of sales	399	5	444	6	(45)	(10)
Communication, training and travel	313	4	341	4	(28)	(8)
Amortization of intangible assets	119	2	193	2	(74)	(38)
Taxes and licenses	83	1	83	1	–	–
Insurance and security services	59	1	58	1	1	2
Selling and promotions	58	1	76	1	(18)	(24)
Asset impairment	28	–	66	1	(38)	(58)
Other expenses	108	1	140	2	(32)	(23)
Total	Php7,656	100	Php7,931	100	(Php275)	(3)

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

Compensation and employee benefits increased by Php1 million to Php4,534 million mainly due to higher salaries and benefits, LTIP and provision for pension costs, partially offset by a decline in MRP costs. ePLDT and its subsidiaries' employee headcount increased by 556, or 3%, to 16,639 in the first nine months of 2011 as compared with 16,083 in the same period in 2010.

Depreciation and amortization decreased by Php9 million, or 2%, to Php550 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions and internet and online gaming businesses on account of fully depreciated assets and de-consolidation of Digital Paradise and Level Up!, partially offset by higher depreciation in relation to our data center expansion and customer relationship management businesses.

Repairs and maintenance expenses decreased by Php16 million, or 3%, to Php533 million primarily due to decrease in repairs and maintenance costs of site facilities and buildings particularly from our customer relationship management business, as well as the de-consolidation of Digital Paradise and Level Up!, partially offset by higher IT software repairs and maintenance costs.

Rent expenses decreased by Php57 million, or 11%, to Php455 million primarily due to lower office building charges and leased circuit rental.

Professional and other contracted services increased by Php40 million, or 11%, to Php417 million primarily due to higher consultancy, contracted service, legal and other professional fees, partially offset by lower audit fees.

Cost of sales decreased by Php45 million, or 10%, to Php399 million primarily due to the lower volume of sales due to the de-consolidation of Digital Paradise and Level Up!, and lower sales of hardware products, partially offset by the cost of sales incurred by ePDS due to the consolidation of its financial results effective August 2011.

Communication, training and travel expense decreased by Php28 million, or 8%, to Php313 million primarily due to lower trunkline charges incurred by our data center business. In addition, the de-consolidation of Digital Paradise and Level Up! contributed to the decline in expenses.

Amortization of intangible assets decreased by Php74 million, or 38%, to Php119 million due to the full impairment of intangible assets related to CyMed and SPi in December 2010.

Taxes and licenses consisting of business-related taxes amounted to Php83 million in the first nine months of 2011 and 2010.

Insurance and security services increased by Php1 million, or 2%, to Php59 million primarily due to higher security services.

Selling and promotion expenses decreased by Php18 million, or 24%, to Php58 million mainly due to our gaming business' lower promotional expenses due to prioritization of spending on profitable games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management business.

Asset impairment decreased by Php38 million, or 58%, to Php28 million primarily due to knowledge processing solutions and customer relationship management's asset impairment of unutilized business tax benefits in 2010.

Other expenses decreased by Php32 million, or 23%, to Php108 million mainly due to lower various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income for the nine months ended September 30, 2011 and 2010:

	2011	2010	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php150	Php134	Php16	12
Interest income	32	26	6	23
Foreign exchange gains (losses) – net	4	(55)	59	107
Financing costs	(35)	(132)	97	(73)
Gains on derivative financial instruments – net	–	5	(5)	(100)
Others	346	62	284	458
Total	Php497	Php40	Php457	1,143

Our ICT business' other income amounted to Php497 million in the first nine months of 2011, an increase of Php457 million from Php40 million in the same period in 2010 primarily due to the combined effects of the following: (i) an increase in other income by Php284 million mainly due to a gain on sale of Digital Paradise and Level Up!, a gain on sale of SPi's medical transcription business and reversal of prior year's provision by our data center business; (ii) a decrease in financing costs by Php97 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; (iii) net foreign exchange gains of Php4 million in the first nine months of 2011 as against net foreign exchange losses of Php55 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in the first nine months of 2011; (iv) an increase in equity share in net earnings of associates by Php16 million mainly from Philweb Corporation, or Philweb; (v) an increase in interest income by Php6 million due to increase in short-term placements and bank deposits; and (vi) net gain on derivative financial instruments of Php5 million in the first nine months of 2010.

Provision for Income Tax

Provision for income tax amounted to Php100 million in the first nine months of 2011 as against a benefit from income tax of Php20 million in the same period in 2010 primarily due to higher taxable income in the first nine months of 2011.

Net Income

Our ICT business registered a net income of Php1,261 million, an increase of Php871 million, or 223%, in the first nine months of 2011 from Php390 million in the same period in 2010 mainly as a result of an increase in other income by Php457 million, an increase in ICT revenues by Php259 million and a decrease in ICT-related expenses by Php275 million, partially offset by an increase in provision for income tax by Php120 million.

EBITDA

Our ICT business' EBITDA increased by Php405 million, or 36%, to Php1,540 million in the first nine months of 2011 from Php1,135 million in the same period in 2010 primarily due to higher revenues and lower cash operating expenses particularly rent, cost of sales, communication, training and travel, selling and promotions, and repairs and maintenance.

Core Income

Our ICT business' core income amounted to Php1,027 million in the first nine months of 2011, an increase of Php532 million, or 107%, as compared with Php495 million in the same period in 2010 mainly as a result of increases in ICT revenues and other income, as well as lower ICT-related expenses, partially offset by an increase in provision for income tax.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2011 and 2010, as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2011 and December 31, 2010:

	<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
(in millions)	(Unaudited)	
Cash Flows		
Net cash provided by operating activities	Php54,987	Php54,026
Net cash used in investing activities	14,360	15,502
<i>Capital expenditures</i>	<i>14,548</i>	<i>16,923</i>
Net cash used in financing activities	44,633	49,676
Net decrease in cash and cash equivalents	3,962	11,417
	<u>September 30,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php70,172	Php75,879
Obligations under finance lease	6	9
	<u>70,178</u>	<u>75,888</u>
Current portion of interest-bearing financial liabilities:		
Notes payable	1,095	–
Long-term debt maturing within one year	19,436	13,767
Obligations under finance lease maturing within one year	7	34
	<u>20,538</u>	<u>13,801</u>
Total interest-bearing financial liabilities	90,716	89,689
Total equity attributable to equity holders of PLDT	85,994	97,069
	<u>Php176,710</u>	<u>Php186,758</u>
Other Selected Financial Data		
Total assets	Php266,870	Php277,815
Property, plant and equipment	157,186	163,184
Cash and cash equivalents	32,716	36,678
Short-term investments	559	669

Our consolidated cash and cash equivalents and short-term investments totaled Php33,275 million as at September 30, 2011. Principal sources of consolidated cash and cash equivalents in the first nine months of 2011 were cash flows from operating activities amounting to Php54,987 million, proceeds from availment of long-term debt and notes payable of Php12,569 million, interest received of Php1,032 million, dividends received of Php486 million and net proceeds from disposal of investments of Php245 million. These funds were used principally for: (1) dividend payments of Php41,484 million; (2) debt principal and interest payments of Php11,955 million and Php3,941 million, respectively; (3) capital outlays of Php14,548 million; (4) settlement of contingent consideration arising from business acquisitions of Php1,910 million; and (5) settlements of derivative financial instruments of Php475 million.

As at September 30, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php30,268 million. Principal sources of consolidated cash and cash equivalents in the first nine months of 2010 were cash flows from operating activities amounting to Php54,026 million, net proceeds from maturity of short-term investments of Php445 million, proceeds from availment of long-term debt of Php7,246 million and interest received of Php929 million. These funds were used principally for: (1) dividend payments of Php40,947 million; (2) capital outlays of Php16,923 million; (3) total debt principal and interest payments of Php10,732 million and Php4,124 million, respectively; and (4) settlement of derivative financial instruments of Php969 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php961 million, or 2%, to Php54,987 million in the first nine months of 2011 from Php54,026 million in the same period in 2010 primarily due to LTIP settlement in March 2010 and higher collection of receivables partially offset by higher settlement of various payables.

Cash flows provided by operating activities of our fixed line business increased by Php868 million, or 5%, to Php17,644 million in the first nine months of 2011 from Php16,776 million in the same period in 2010 primarily due to LTIP settlement in March 2010, lower level of settlement of accounts payable and other liabilities, partially offset by higher level of outstanding receivables. Cash flows provided by operating activities of our ICT business also increased by Php298 million, or 27%, to Php1,400 million in the first nine months of 2011 from Php1,102 million in the same period in 2010 primarily due to settlement of LTIP in March 2010 and higher collection of receivables, partially offset by the higher level of settlement of accounts payable, and other liabilities in the first nine months of 2011. On the other hand, cash flows from operating activities of our wireless business decreased by Php211 million, or 1%, to Php35,950 million in the first nine months of 2011 from Php36,161 million in the same period in 2010 primarily due to a higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of receivables and LTIP settlement in March 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php14,360 million in the first nine months of 2011, a decrease of Php1,142 million, or 7%, from Php15,502 million in the same period in 2010 primarily due to the combined effects of the following: (1) the decrease in capital expenditures by Php2,375 million; (2) payment for contingent consideration arising from business acquisitions by Php1,910 million; (3) the lower net proceeds from the maturity of short-term investments by Php387 million; (4) net proceeds from disposal of investments of Php245 million; and (5) higher interest received by Php103 million.

Our consolidated capital expenditures in the first nine months of 2011 totaled Php14,548 million, a decrease of Php2,375 million, or 14%, as compared with Php16,923 million in the same period in 2010 primarily due to the decrease in Smart's and PLDT's capital spending. PLDT's capital spending of Php8,049 million in the first nine months of 2011 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php5,976 million in the first nine months of 2011 was used primarily to modernize and expand its 2G/3G cellular network and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. ePLDT and its subsidiaries' capital spending of Php423 million in the first nine months of 2011 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php100 million represented other subsidiaries' capital spending.

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

Dividends received in the first nine months of 2011 amounted to Php486 million, an increase of Php41 million, or 9%, as compared with Php445 million in the same period in 2010. The dividends received in the first nine months of 2011 and 2010 were from Meralco, Philweb and ePDS.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php44,633 million in the first nine months of 2011, a decrease of Php5,043 million, or 10%, as compared with Php49,676 million in the same period in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php5,323 million; (2) higher net availment of capital expenditures under long-term financing by Php728 million; (3) lower settlements of derivative financial instruments by Php494 million; (4) lower interest payments by Php183 million; (5) higher cash dividend payments by Php537 million; and (6) net increase in repayments of long-term debt and notes payable by Php1,223 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the nine months ended September 30, 2011 amounted to Php11,300 million and Php1,269 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 Php11,955 million and Php3,941 million, respectively, in the first nine months of 2011.

Our consolidated long-term debt decreased by Php38 million to Php89,608 million in the first nine months of 2011 from Php89,646 million on December 31, 2010 mainly due to higher debt amortizations and prepayments, and the slight appreciation of the Philippine peso relative to the U.S. dollar to Php43.80 as at September 30, 2011 from Php43.81 as at December 31, 2010. The long-term debt level of PLDT increased by 6% to Php51,845 million while the debt level of Smart decreased by 7% to Php37,690 million, respectively, as at September 30, 2011 as compared with December 31, 2010.

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011. Tranche B amounting to Php1,000 million was issued in multiple drawdowns of Php250 million each, the first of which was on March 24, 2011. On various dates in April 2011, the remaining Php750 million of Tranche B was fully drawn. The aggregate amount of Php2,000 million remained outstanding as at September 30, 2011. The facility is payable in full five years from the respective issue dates.

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011 and remained outstanding as at September 30, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the facilities were used to finance capital expenditures for network expansion and improvement and/or to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The amount of Php5,000 million remained outstanding as at September 30, 2011.

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011 and remained outstanding as at September 30, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php300 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The amount of Php300 million was fully drawn on April 28, 2011 and remained outstanding as at September 30, 2011.

On April 4, 2011, PLDT signed a loan agreement with The Manufacturers Life Insurance Co. (Phils.), Inc. amounting to Php500 million to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at September 30, 2011.

On June 6, 2011, Smart signed a US\$60 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Lender. The loan is payable over five years in eight equal semi-annual installments with the first installment on the eighteenth month from signing date. No availment has been made on this facility as at November 3, 2011.

On June 10, 2011, Smart signed a US\$49 million five-year loan facility to finance the supply and services contracts for the modernization and expansion project with Nordea Bank AB as Original Lender, Arranger and Facility Agent which will subsequently assign its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean commissioning date. No availment has been made on this facility as at November 3, 2011.

On August 19, 2011, Smart signed a US\$50 million five-year term loan facility to finance the supply contracts for the modernization and expansion project with Finnish Export Credit, Plc., as Lender on Record. The facility was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., the Hong Kong and Shanghai Banking Corporation Limited and Mizuho Corporate Bank, Ltd. This facility is payable semi-annually in ten equal installments commencing six months after August 19, 2012. No availment has been made on this facility as at November 3, 2011.

On October 28, 2011, PLDT priced Php5 billion 5-year, 7-year and 10-year fixed rate notes at yields of 5.4692%, 5.4963%, and 6.2188%, respectively. Proceeds from the facilities will be used to finance capital expenditures for network expansion and improvement and to refinance existing debt obligations which were also used to finance service improvements and expansion programs. The notes will be issued on November 8, 2011.

Approximately Php52,175 million principal amount of our consolidated outstanding long-term debt as at September 30, 2011 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php30,534 million is attributable to Smart, Php21,568 million to PLDT, and the remainder to ePLDT's subsidiaries.

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

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first nine months of 2011 amounted to Php41,484 million as compared with Php40,947 million paid to shareholders in the same period in 2010. On August 2, 2011, we declared an interim regular cash dividend of Php78 per share, representing approximately 70% payout of our 2011 core EPS. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our 2010 core EPS.

Off-Statement of Financial Position Arrangements

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

Equity Financing

Through our subscriber investment plan, which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise approximately Php2 million each in the first nine months of 2011 and 2010.

As part of our goal to maximize returns to our shareholders, we obtained Board of Directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT's common stock, representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at September 30, 2011 and December 31, 2010. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the six months ended June 30, 2011 and 2010. Please see to *Note 8 – Earnings Per Common Share*, *Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

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

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

On or before the Redemption Date, PLDT will set aside such amount required to fund the Redemption Price for the SIP Shares, or the Redemption Trust Fund. The Redemption Trust Fund will be deposited in a trust account in the name of a designated financial institution, as trustee (respectively, the "Trust Account" and the "Trustee"), which shall be available for the aforesated purpose. The Trustee will continue to hold in trust, for the benefit of those Holders of SIP Shares who have failed to claim their Redemption Price on the Redemption Date, or the Non-Claiming Holders, such amount equal to the unclaimed Redemption Price of the SIP Shares of the Non-Claiming Holders, or the Unclaimed Redemption Amount, for a period of 10 years from and after 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.

Notwithstanding that any stock certificate representing the SIP Shares is not surrendered for cancellation on the Redemption Date, the SIP Shares shall no longer be deemed outstanding and, from and after the Redemption Date, the right of the holders of such shares to receive dividends thereon shall cease to accrue and all rights with respect to such SIP Shares shall forthwith cease and terminate, except only the right to receive the Redemption Price, but without interest thereon.

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

In a circular issued by the PSE dated October 4, 2011, the PSE granted PLDT's request to stop the trading of the SIP Shares comprising Series A to FF effective October 5, 2011, in connection with the Redemption. Please see *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at September 30, 2011 and 2010, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php689 million and Php1,145 million as at September 30, 2011 and December 31, 2010, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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

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

	Fair Values	
	September 30, 2011	June 30, 2011
	(Unaudited)	
(in millions)		
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php81	Php78
Unlisted equity securities	69	68
Investments in debt securities	519	509
Advances and refundable deposits – net of current portion	848	924
Total noncurrent financial assets	1,517	1,579
Current Financial Assets		
Cash and cash equivalents	32,716	38,658
Short-term investments	559	600
Trade and other receivables – net	15,795	14,922
Derivative financial assets	233	267
Current portion of advances and refundable deposits	18	16
Total current financial assets	49,321	54,463
Total Financial Assets	Php50,838	Php56,042
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php75,180	Php76,759
Derivative financial liabilities	1,759	1,980
Customers' deposits	1,674	1,596
Deferred credits and other noncurrent liabilities	11,898	10,211
Total noncurrent financial liabilities	90,511	90,546
Current Financial Liabilities		
Accounts payable	20,919	19,697
Accrued expenses and other current liabilities	28,941	28,476
Interest-bearing financial liabilities	20,538	22,449
Derivative financial liabilities	857	892
Dividends payable	2,468	2,191
Total current financial liabilities	73,723	73,705
Total Financial Liabilities	Php164,234	Php164,251

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

(in millions)	<u>September 30,</u> <u>2011</u>	<u>June 30,</u> <u>2011</u>
	(Unaudited)	
Profit and Loss		
Interest income	Php1,013	Php645
Gains on derivative financial instruments – net	626	484
Accretion on financial liabilities – net	(807)	(555)
Interest on loans and other related items	(4,369)	(2,866)
Other Comprehensive Income		
Net gains on cash flow hedges	7	–
Net gains on available-for-sale financial assets – net of tax	3	1
	<u>(Php3,527)</u>	<u>(Php2,291)</u>

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in the first nine months of 2011 and 2010 was 4.3% and 4.1%, respectively. Moving forward, we expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

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

On March 29, 2011, the Board Directors of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS’s and certain other seller-parties’ ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGS and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGS to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 30, 2010 (the “Assets”). Digitel operates a fixed line business in certain parts of the country and is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

The completion of the acquisition was subject to the procurement of certain regulatory and other approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties’ Digitel shares representing more than 40% of Digitel’s issued and outstanding common stock; (ii) the confirmation by the Philippine SEC of the valuation of the Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration

requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets and the Digitel shares which shall have been tendered pursuant to the tender offer. In addition, the sale of the Digitel shares owned by the seller-parties is subject to the consent of certain creditors of Digitel and DMPI.

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

As part of the NTC approval of the acquisition of Digitel by PLDT, or the Decision, the NTC approved the divestment plan presented by PLDT, which covers the following commitments:

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

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

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

Under the Securities Regulation Code, or SRC, PLDT is required to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the remaining non-controlling shareholders of Digitel upon completion of the acquisition of 51.55% interest. Under the tender offer, PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of Digitel shareholders. The tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65



million new PLDT common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel. The 29.65 million new PLDT common shares will represent up to approximately 13.7% of the enlarged issued and outstanding common stock of PLDT.

Assuming full acceptance by the non-controlling shareholders of Digitel, the total transaction consideration would be approximately Php74.1 billion.

Digitel and DMPI have outstanding long-term debts that are guaranteed by JGS. The loans and guarantees contain representations and covenants applicable only to JGS including that on the ownership of JGS in Digitel. Digitel and DMPI have provided the necessary notices and obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGS by PLDT as guarantor under these loans. The amendments to the covenants and the PLDT guarantee will take effect upon completion of the acquisition.

The PLDT shares that were issued as payment for the Assets are subject to a lock-up period of one (1) year during which JGS and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT.

PLDT has granted consents to the potential sale by JGS of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGS has entered into with an associate company of First Pacific Company Limited and NTT DoCoMo, Inc., respectively. Following the sale of these shares, expected to occur within 30 days from the listing date of the PLDT shares issued to JGS, the JG Summit Group will own approximately 8.0% of PLDT's common shares.

Below is the pro-forma condensed statement of financial position and income statement based on the latest available financial information as at and for the nine months ended September 30, 2011, which was prepared for the purpose of presenting the impact of the transaction with the closing date of October 26, 2011. Additional assumptions used in preparing the pro-forma are detailed in the footnotes provided below.

The pro-forma adjustments will not affect the unaudited consolidated financial statements of PLDT and Digitel as at and for the nine months ended September 30, 2011 as business combinations are accounted for at the date of business combination, or October 26, 2011, and prospectively. Prior period's financial statements are not restated as a result of business combination transaction.



In the pro-forma condensed statement of financial position below, the purchase price consideration was allocated on the assumption that the book values as at September 30, 2011 equal their fair values. Allocation of purchase price consideration and the amount of goodwill recognized will be adjusted accordingly based on the result of the valuation by an independent appraiser, which will be engaged by PLDT.

As at September 30, 2011 (Unaudited)	PLDT	DIGITEL	PRO-FORMA	
			ADJUSTMENT	RESULTS
(in millions)				
ASSETS				
Noncurrent Assets				
Property, plant and equipment	Php157,186	Php81,446	Php–	Php238,632
Investments in associates and joint ventures	24,209	–	–	24,209
Goodwill and intangible assets	11,387	–	14,447 ⁽¹⁾	25,834
Other noncurrent assets	17,492	3,252	138 ⁽⁵⁾	20,882
Total Noncurrent Assets	210,274	84,698	14,585	309,557
Current Assets				
Cash and cash equivalents	32,716	1,292	–	34,008
Other current assets	23,880	5,286	–	29,166
Total Current Assets	56,596	6,578	–	63,174
TOTAL ASSETS	266,870	91,276	14,585	372,731
EQUITY AND LIABILITIES				
Equity				
Paid in capital	61,753	8,976	55,517 ⁽²⁾	126,246
Retained earnings	25,375	(7,084)	6,761 ⁽³⁾	25,052
Equity reserve	–	(1,831)	1,831 ⁽³⁾	–
Other comprehensive income	(1,134)	–	–	(1,134)
Total Equity Attributable to Equity Holders of PLDT	85,994	61	64,109	150,164
Non-controlling interests	441	–	–	441
TOTAL EQUITY	86,435	61	64,109	150,605
Noncurrent Liabilities				
Interest-bearing financial liabilities – net of current portion	70,178	16,915	–	87,093
Other noncurrent liabilities	22,153	62,677	(54,587) ⁽⁴⁾	30,243
Total Noncurrent Liabilities	92,331	79,592	(54,587)	117,336
Current Liabilities				
Accounts payable	22,732	8,675	–	31,407
Accrued expenses and other current liabilities	37,466	–	461 ⁽⁵⁾	37,927
Put-option liability	–	–	4,602 ⁽¹⁾	4,602
Other current liabilities	27,906	2,948	–	30,854
Total Current Liabilities	88,104	11,623	5,063	104,790
TOTAL LIABILITIES	180,435	91,215	(49,524)	222,126
TOTAL EQUITY AND LIABILITIES	Php266,870	Php91,276	Php14,585	Php372,731

⁽¹⁾ Includes pro-forma adjustments on the acquisition of the Assets and the accounting of the mandatory tender offer, which gives all non-controlling Digitel shareholders the option to exchange their Digitel common shares either for PLDT common shares or cash. The acquisition of the assets and mandatory tender offer are treated as linked transactions, thus, it is assumed that PLDT acquired 100% equity interest of Digitel as at the date of the completion of the transaction, which is October 26, 2011. The mandatory offer requires recognition of financial liability measured by multiplying the number of shares held by the non-controlling Digitel shareholders with the agreed rate of Php1.60 per Digitel share as at acquisition date. In addition, the pro-forma adjustments were calculated using Php2,330, the share price of PLDT common shares at October 26, 2011. The amount allocated to net assets of Digitel is based on provisional accounting wherein it was assumed that the carrying value of Digitel Net Assets approximate their Fair Values as at September 30, 2011, which is the latest period for which financial data is available, and the difference between the total consideration transferred and the carrying value of the net assets at acquisition date refers entirely to goodwill. The value of embedded equity option resulting from the option granted to the non-controlling Digitel shareholders to avail of the tender offer in the form of PLDT common shares instead of cash was assumed to have a value of zero as at September 30, 2011.

⁽²⁾ Includes pro-forma adjustments on the issuance of PLDT New Shares at the issue price of Php2,330 per share, equivalent to the market value of share price at October 26, 2011, net of elimination of Digitel Paid-in Capital.

⁽³⁾ Relates to transaction costs incurred, net of tax, and the elimination of Digitel equity upon consolidation.

⁽⁴⁾ Relates to the elimination upon consolidation of Bonds Payable and Advance that are part of the Assets acquired by PLDT from JGS Group.

⁽⁵⁾ Relates to accrual of transaction costs incurred to close the transaction.



For the Nine Months Ended September 30, 2011 (Unaudited)	PRO-FORMA			
	PLDT	DIGITEL	ADJUSTMENT	RESULTS
	(in millions)			
REVENUES				
Service revenues	Php103,245	Php13,821	Php-	Php117,066
Non-service revenues	1,781	205	-	1,986
	105,026	14,026	-	119,052
EXPENSES				
Depreciation and amortization	20,176	3,925	-	24,101
Compensation and employee benefits	15,963	6,997	-	22,960
Repairs and maintenance	6,925	-	-	6,925
Selling and promotions	4,496	-	-	4,496
Professional and other contracted services	3,644	-	461 ⁽¹⁾	4,105
Cost of sales	3,583	1,559	-	5,142
Rent	2,958	-	-	2,958
Taxes and licenses	1,842	-	-	1,842
Asset impairment	1,184	254	-	1,438
Other expenses	3,574	-	-	3,574
	64,345	12,735	461	77,541
	40,681	1,291	(461)	41,511
OTHER INCOME (EXPENSES)	(355)	(1,352)	803 ⁽²⁾	(904)
INCOME BEFORE INCOME TAX	40,326	(61)	342	40,607
PROVISION FOR INCOME TAX	9,719	(77)	103 ⁽³⁾	9,745
NET INCOME FOR THE PERIOD	30,607	16	239	30,862
ATTRIBUTABLE TO:				
Equity holders of Parent Company	30,618	16	239	30,873
Non-controlling interests	(11)	-	-	(11)
	Php30,607	Php16	Php239	Php30,862
Earnings Per Share For The Year Attributable to Common Equity Holders				
Basic	162.11	0.002	-	142.37
Diluted	162.06	0.002	-	142.37

⁽¹⁾ Relates to transaction costs incurred to close the transaction. Under PFRS 3, such expenses are treated as period cost.

⁽²⁾ Relates to the assumed interest income recognized by PLDT on the bonds payable, which is part of the Assets, and is eliminated upon consolidation against the financing costs recognized by Digitel.

⁽³⁾ Relates to the tax effects of the adjustments of the transaction cost and interest income.

PLDT's Creation of Voting Preferred Shares

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments (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 (a Qualified Owner). The holders of Voting Preferred Stock shall have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock.

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

The Board of Directors plans to call another special meeting of stockholders on such date to be announced in due course.

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

All preferred stocks limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

PCEV's Transfer of the Remaining Meralco Shares to Beacon

On October 19, 2011, PCEV's Board of Directors approved the transfer of its remaining 68.8 million shares in Meralco into Beacon at a price of Php220 per share equivalent to Php15,136 million. The price of Php220 per share was based on a discount to the 15-day weighted average share price of Meralco, Meralco's share price targets as published by various equity research analysts and comparable market transactions. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011. PCEV no longer holds directly any shares in Meralco while Beacon beneficially owns approximately 45.35% of Meralco's common shares, with Beacon as the single largest shareholder of Meralco.

The Board of PCEV also authorized the subscription of PCEV to 1.199 billion Beacon preferred shares with an issue value of Php15,136 million. The preferred shares carry a 7% dividend rate, subject to cash availability and retained earnings.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE


The following table shows the aging of our consolidated receivables as at September 30, 2011:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
	(in millions)				
Corporate subscribers	Php8,667	Php1,872	Php1,545	Php604	Php4,646
Retail subscribers.....	8,484	1,660	765	214	5,845
Foreign administrations	5,335	1,489	1,292	802	1,752
Domestic carriers.....	1,456	212	117	141	986
Dealers, agents and others	4,264	3,105	191	510	458
Total	Php28,206	Php8,338	Php3,910	Php2,271	Php13,687
Less: Allowance for doubtful accounts	12,411				
Total Receivables - net.....	Ph15,795				

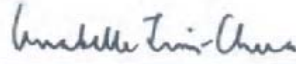
SIGNATURES

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

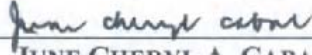
Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: 

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: 

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

Signature and Title: 

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

Date: November 3, 2011