

SEC Number  
File Number

**PW-55**

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**PHILIPPINE LONG DISTANCE  
TELEPHONE COMPANY**

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(Company's Full Name)

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

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(Company's Address)

**(632) 816-8556**

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(Telephone Number)

**Not Applicable**

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(Fiscal Year Ending)  
(month & day)

**SEC Form 17-Q**

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Form Type

**Not Applicable**

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Amendment Designation (if applicable)

**June 30, 2013**

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Period Ended Date

**Not Applicable**

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(Secondary License Type and File Number)



August 7, 2013


Securities & Exchange Commission  
SEC Building, EDSA  
Mandaluyong City

Attention: Director Justina Callangan  
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith two (2) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the six (6) months ended June 30, 2013.

Very truly yours,

  
**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-REVILLA  
Contact Person

816-8534  
Company Telephone Number

1 2 3 1  
Month Day  
Fiscal Year

SEC FORM 17-Q  
FORM TYPE

0 6 Every 2<sup>nd</sup>  
Month Day Tuesday  
Annual Meeting

C F D  
Dept. Requiring this Doc.

N/A  
Amended Articles  
Number/Section

12,075  
As of June 30, 2013  
Total No. of Stockholders

Total Amount of Borrowings  
N/A  
Domestic

N/A  
Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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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 June 30, 2013
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Philippine Long Distance Telephone Company  
Exact name of registrant as specified in its charter
5. Republic of the Philippines  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721  
Address of registrant's principal office Postal Code
8. (632) 816-8556  
Registrant's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC  

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	216,055,775 shares as at June 30, 2013
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 June 30, 2013 (unaudited) and December 31, 2012 (as adjusted) and for the six months ended June 30, 2013 and 2012 (unaudited) and related notes (pages F-1 to F-135) are filed as part of this report on Form 17-Q.*

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

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

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

*The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US\$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php43.26 to US\$1.00, the volume weighted average exchange rate as at June 30, 2013 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

	Six Months Ended June 30,		Increase (Decrease)	
	2013	2012 <sup>(1)</sup>	Amount	%
<i>(in millions, except for EBITDA margin, earnings per common share, net debt to equity ratio and operational data)</i>				
Revenues	Php83,099	Php81,236	Php1,863	2
Expenses	59,203	58,873	330	1
Other income (expenses)	(1,358)	2,877	(4,235)	(147)
Income before income tax	22,538	25,240	(2,702)	(11)
Net income for the period	19,724	19,251	473	2
Continuing operations	17,861	19,005	(1,144)	(6)
Discontinued operations	1,863	246	1,617	657
Core income	19,395	18,441	954	5
Continuing operations	19,494	18,190	1,304	7
Discontinued operations	(99)	251	(350)	(139)
EBITDA	39,991	39,119	872	2
Continuing operations	39,808	38,364	1,444	4
Discontinued operations	183	755	(572)	(76)
EBITDA margin <sup>(2)</sup>	49%	48%	-	-
Reported earnings per common share:				
Basic	91.09	89.13	1.96	2
Diluted	91.09	89.13	1.96	2
Core earnings per common share <sup>(3)</sup> :				
Basic	89.64	85.24	4.40	5
Diluted	89.64	85.24	4.40	5

	June 30,	December 31,	Increase (Decrease)	
	2013	2012 <sup>(4)</sup>	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php395,611	Php405,815	(Php10,204)	(3)
Property, plant and equipment – net	189,164	200,078	(10,914)	(5)
Cash and cash equivalents and short-term investments	43,518	37,735	5,783	15
Total equity attributable to equity holders of PLDT	143,600	145,550	(1,950)	(1)
Notes payable and long-term debt, including current portion	117,895	115,792	2,103	2
Net debt <sup>(5)</sup> to equity ratio	0.52x	0.54x	-	-

	Six Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php31,798	Php35,920	(Php4,122)	(11)
Net cash provided by (used in) investing activities	1,153	(12,485)	13,638	(109)
Capital expenditures	4,787	9,298	(4,511)	(49)
Net cash used in financing activities	31,552	37,632	(6,080)	(16)
Operational Data				
Number of cellular subscribers	73,383,385	67,429,102	5,954,283	9
Number of fixed line subscribers	2,061,051	2,133,478	(72,427)	(3)
Number of broadband subscribers:	3,242,563	3,039,377	203,186	7
Fixed Line	920,147	870,650	49,497	6
Wireless	2,322,416	2,168,727	153,689	7
Number of employees:	17,903	19,306	(1,403)	(7)
Fixed Line	9,858	11,175	(1,317)	(12)
LEC	7,033	8,401	(1,368)	(16)
Others	2,825	2,774	51	2
Wireless	8,045	8,131	(86)	(1)

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the Business Process Outsourcing, or BPO, segment and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

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

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

<sup>(4)</sup> The December 31, 2012 comparative information was restated to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

<sup>(5)</sup> 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).

Exchange Rates – per US\$	Month-end rates	Weighted average rates
		during the period
June 30, 2013	Php43.26	Php41.24
December 31, 2012	41.08	42.24
June 30, 2012	42.28	42.90
December 31, 2011	43.92	43.31

## 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 Digital Mobile Philippines, Inc., or DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digital Telecommunications Philippines, Inc., or Digitel, our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and its subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;
- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global Corporation, or PLDT Global, and Digitel, all of which together account for approximately 10% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, IP Converge Data Services, Inc., or IPCDSI, ABM Global Solutions, Inc., or AGS, and its subsidiaries, or AGS Group, and netGames, Inc.; and bills printing and other value-added services, or VAS, -related services provided by ePDS, Inc., or ePDS; and
- *Others* — PCEV and PGIH, our investment companies.

See *Note 2 – Summary of Significant Accounting Policies*, *Note 4 – Operating Segment Information* and *Note 13 – Business Combinations* to the accompanying unaudited consolidated financial statements.

As at June 30, 2013, our chief operating decision maker, or our Management Committee, views our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and should negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the six months ended June 30, 2012 to present the results of operations of our BPO business as discontinued operations. See "Other Information – Sale of BPO Segment" section and *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions* to the accompanying unaudited consolidated financial statements for further discussion.

## 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.



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**EBITDA**

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

**Core Income**

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

## Management's Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the six months ended June 30, 2013 and 2012 are set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>
	(in millions)	
EBITDA from continuing operations	Php39,808	Php38,364
EBITDA from discontinued operations	183	755
Consolidated EBITDA	39,991	39,119
Add (deduct) adjustments to continuing operations:		
Other income	1,858	3,142
Interest income	485	619
Foreign exchange gains (losses) – net	(1,922)	1,606
Equity share in net earnings of associates and joint ventures	1,100	1,311
Gains (losses) on derivative financial instruments – net	448	(437)
Amortization of intangible assets	(453)	(712)
Retroactive effect of adoption of Revised PAS 19 <sup>(2)</sup>	(927)	–
Financing costs – net	(3,327)	(3,364)
Provision for income tax	(4,677)	(6,235)
Depreciation and amortization	(14,532)	(15,289)
Total adjustments	(21,947)	(19,359)
Adjustment to discontinued operations	1,680	(509)
Net income from continuing operations	17,861	19,005
Net income from discontinued operations	1,863	246
Consolidated net income	Php19,724	Php19,251

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

<sup>(2)</sup> The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>
	(in millions)	
Core income from continuing operations	Php19,494	Php18,190
Core income from discontinued operations	(99)	251
Consolidated core income	19,395	18,441
Add (deduct) adjustments to continuing operations:		
Foreign exchange gains (losses) – net	(1,922)	1,606
Gains (losses) on derivative financial instruments – net, excluding hedge cost	594	(264)
Core income adjustment on equity share in net earnings (losses) of associates and joint ventures	89	(93)
Net income (loss) attributable to noncontrolling interests	17	(31)
Retroactive effect of adoption of Revised PAS 19 <sup>(2)</sup>	(927)	–
Net tax effect of aforementioned adjustments	516	(403)
Total adjustments	(1,633)	815
Adjustment to discontinued operations	1,962	(5)
Net income from continuing operations	17,861	19,005
Net income from discontinued operations	1,863	246
Consolidated net income	Php19,724	Php19,251

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

<sup>(2)</sup> The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

## Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income/segment profit, EBITDA, EBITDA margin and core income for the six months ended June 30, 2013 and 2012. In each of the six months ended June 30, 2013 and 2012, we generated a majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	Others	Inter-segment Transactions	Consolidated
	(in millions)				
For the six months ended June 30, 2013					
Revenues	Php58,935	Php31,476	Php-	(Php7,312)	Php83,099
Expenses	39,658	27,227	2	(7,684)	59,203
Other income (expenses)	(2,776)	(294)	1,938	(226)	(1,358)
Income before income tax	16,501	3,955	1,936	146	22,538
Provision for income tax	3,837	767	73	-	4,677
Net income/Segment profit	12,664	3,188	1,863	146	19,724
Continuing operations	12,664	3,188	1,863	146	17,861
Discontinued operations	-	-	-	-	1,863
EBITDA	28,068	11,370	(2)	372	39,991
Continuing operations	28,068	11,370	(2)	372	39,808
Discontinued operations	-	-	-	-	183
EBITDA margin <sup>(1)</sup>	49%	37%	-	(5%)	49%
Continuing operations	49%	37%	-	(5%)	49%
Discontinued operations	-	-	-	-	-
Core income	14,003	3,946	1,399	146	19,395
Continuing operations	14,003	3,946	1,399	146	19,494
Discontinued operations	-	-	-	-	(99)
For the six months ended June 30, 2012 <sup>(2)</sup>					
Revenues	57,856	29,820	-	(6,440)	81,236
Expenses	39,092	26,450	11	(6,680)	58,873
Other income (expenses)	362	(894)	3,461	(52)	2,877
Income before income tax	19,126	2,476	3,450	188	25,240
Provision for income tax	5,670	561	4	-	6,235
Net income/Segment profit	13,456	1,915	3,446	188	19,251
Continuing operations	13,456	1,915	3,446	188	19,005
Discontinued operations	-	-	-	-	246
EBITDA	28,232	9,903	(11)	240	39,119
Continuing operations	28,232	9,903	(11)	240	38,364
Discontinued operations	-	-	-	-	755
EBITDA margin <sup>(1)</sup>	50%	34%	-	(4%)	48%
Continuing operations	50%	34%	-	(4%)	48%
Discontinued operations	-	-	-	-	-
Core income	12,707	1,756	3,539	188	18,441
Continuing operations	12,707	1,756	3,539	188	18,190
Discontinued operations	-	-	-	-	251
Increase (Decrease)					
Revenues	Php1,079	Php1,656	Php-	(Php872)	Php1,863
Expenses	566	777	(9)	(1,004)	330
Other income (expenses)	(3,138)	600	(1,523)	(174)	(4,235)
Income before income tax	(2,625)	1,479	(1,514)	(42)	(2,702)
Provision for income tax	(1,833)	206	69	-	(1,558)
Net income/Segment profit	(792)	1,273	(1,583)	(42)	473
Continuing operations	(792)	1,273	(1,583)	(42)	(1,144)
Discontinued operations	-	-	-	-	1,617
EBITDA	(164)	1,467	9	132	872
Continuing operations	(164)	1,467	9	132	1,444
Discontinued operations	-	-	-	-	(572)
Core income	1,296	2,190	(2,140)	(42)	954
Continuing operations	1,296	2,190	(2,140)	(42)	1,304
Discontinued operations	-	-	-	-	(350)

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

<sup>(2)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See "Other Information – Sale of BPO Segment" discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

## On a Consolidated Basis

### Revenues

We reported consolidated revenues of Php83,099 million in the first half of 2013, an increase of Php1,863 million, or 2%, as compared with Php81,236 million in the same period in 2012, primarily due to higher revenues from data and other network, and miscellaneous services from our fixed line business, and higher cellular and broadband revenues from our wireless business, partially offset by lower revenues from national long distance, local exchange and international long distance services from our fixed line business, and satellite and other services from our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	Php58,935	71	Php57,856	71	Php1,079	2
Fixed line	31,476	38	29,820	37	1,656	6
Inter-segment transactions	(7,312)	(9)	(6,440)	(8)	(872)	14
Consolidated	Php83,099	100	Php81,236	100	Php1,863	2

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment and certain presentation adjustments to conform with the current presentation of our business segments. See "Other Information – Sale of BPO Segment" discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

### Expenses

Consolidated expenses increased by Php330 million, or 1%, to Php59,203 million in the first half of 2013 from Php58,873 million in the same period in 2012, as a result of higher expenses related to cost of sales, professional and other contracted services, rent, repairs and maintenance and asset impairment, partially offset by lower expenses related to depreciation and amortization, compensation and employee benefits, including the retroactive effect of the application of the Revised PAS 19 in our manpower rightsizing program, or MRP, costs of Php927 million in the first half of 2013, amortization of intangible assets, taxes and licenses, and interconnection costs.

The following table shows the breakdown of our consolidated expenses by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	Php39,658	67	Php39,092	66	Php566	1
Fixed line	27,227	46	26,450	45	777	3
Others	2	–	11	–	(9)	(82)
Inter-segment transactions	(7,684)	(13)	(6,680)	(11)	(1,004)	15
Consolidated	Php59,203	100	Php58,873	100	Php330	1

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See "Other Information – Sale of BPO Segment" discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

### Other Income (Expenses)

Consolidated other expenses amounted to Php1,358 million in the first half of 2013, a change of Php4,235 million as against other income of Php2,877 million in the same period in 2012, primarily due to the combined effects of the following: (i) foreign exchange losses of Php1,922 million in the first half of 2013 as against foreign exchange gains of Php1,606 million in the same period in 2012 mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php42.28 as at June 30, 2012 from Php43.92 as at December 31, 2011; (ii) a decrease in other income by Php1,284 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon Electric Asset Holdings, Inc., or Beacon, of Php2,012 million in the first six

months of 2012, partially offset by the gain on sale of Philweb shares of Php905 million in the same period in 2013; (iii) net decrease in equity share in net earnings of associates and joint ventures by Php211 million; (iv) lower interest income by Php134 million due to lower weighted average interest rates and lower weighted average level of dollar and peso investments, effect of lower weighted average exchange rate of the Philippine peso relative to the U.S. dollar, partly offset by longer average tenor of dollar and peso placements; (v) a decrease in net financing costs by Php37 million mainly due to lower interest on loans and other related items on account of lower interest rates and lower weighted average exchange rate of the Philippine peso relative to the U.S. dollar, partially offset by higher outstanding long-term debts by our fixed line and wireless businesses, higher financing charges and lower capitalized interest; and (vi) net gains on derivative financial instruments of Php448 million in the first half of 2013 as against net losses on derivative financial instruments of Php437 million in the same period in 2012 due to the depreciation of the Philippine peso, maturity of the 2012 hedges and wider dollar and peso interest rate differentials in the first six months of 2013.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	(Php2,776)	204	Php362	13	(Php3,138)	(867)
Fixed line	(294)		(894)	(31)	600	(67)
Others	1,938	(143)	3,461	120	(1,523)	(44)
Inter-segment transactions	(226)	17	(52)	(2)	(174)	335
Consolidated	(Php1,358)	100	Php2,877	100	(Php4,235)	(147)

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

### Net Income

Consolidated net income increased by Php473 million, or 2%, to Php19,724 million in the first half of 2013, from Php19,251 million in the same period in 2012. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated revenues by Php1,863 million; (ii) higher income from discontinued operations of Php1,617 million mainly due to the gain on disposal of our BPO business; (iii) a decrease in consolidated provision for income tax by Php1,558 million, which was mainly due to lower taxable income of our wireless business; (iv) an increase in consolidated expenses by Php330 million; and (v) an increase in consolidated other expense – net by Php4,235 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php91.09 in the first half of 2013 from consolidated basic and diluted EPS of Php89.13 in the same period in 2012. Our weighted average number of outstanding common shares was approximately 216.1 million in each of the six months ended June 30, 2013 and 2012.

The following table shows the breakdown of our consolidated net income by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	Php12,664	64	Php13,456	70	(Php792)	(6)
Fixed line	3,188	16	1,915	10	1,273	66
Others	1,863	10	3,446	18	(1,583)	(46)
Inter-segment transactions	146	1	188	1	(42)	(22)
Continuing operations	17,861	91	19,005	99	(1,144)	(6)
Discontinued operations	1,863	9	246	1	1,617	657
Consolidated	Php19,724	100	Php19,251	100	Php473	2

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

## EBITDA

Our consolidated EBITDA, including EBITDA from discontinued operations, amounted to Php39,991 million in the first half of 2013, an increase of Php872 million, or 2%, as compared with Php39,119 million in the same period in 2012, primarily due to higher consolidated revenues, lower operating expenses related to compensation and employee benefits, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php927 million in the first six months of 2013, lower taxes and licenses, and interconnection costs, partially offset by higher operating expenses driven by cost of sales, professional and other contracted services, asset impairment and repairs and maintenance.

The following table shows the breakdown of our consolidated EBITDA by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	Php28,068	70	Php28,232	72	(Php164)	(1)
Fixed line	11,370	29	9,903	25	1,467	15
Others	(2)	–	(11)	–	9	(82)
Inter-segment transactions	372	1	240	1	132	55
Continuing operations	39,808	100	38,364	98	1,444	4
Discontinued operations	183	–	755	2	(572)	(76)
Consolidated	Php39,991	100	Php39,119	100	Php872	2

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

## Core Income

Our consolidated core income, including core income from discontinued operations, amounted to Php19,395 million in the first half of 2013, an increase of Php954 million, or 5%, as compared with Php18,441 million in the same period in 2012, primarily due to an increase in consolidated revenues and lower provision for income tax, partially offset by an increase in consolidated expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php927 million in the first half of 2013. Our consolidated basic and diluted core EPS, including basic and diluted core EPS from discontinued operations, increased to Php89.64 in the first half of 2013 from Php85.24 in the same period in 2012.

The following table shows the breakdown of our consolidated core income by business segment for the six months ended June 30, 2013 and 2012:

	2013	%	2012 <sup>(1)</sup>	%	Change	
					Amount	%
(in millions)						
Wireless	Php14,003	72	Php12,707	69	Php1,296	10
Fixed line	3,946	21	1,756	10	2,190	125
Others	1,399	7	3,539	19	(2,140)	(60)
Inter-segment transactions	146	1	188	1	(42)	(22)
Continuing operations	19,494	101	18,190	99	1,304	7
Discontinued operations	(99)	(1)	251	1	(350)	(139)
Consolidated	Php19,395	100	Php18,441	100	Php954	5

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See “Other Information – Sale of BPO Segment” discussion and Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

## On a Business Segment Basis

### Wireless

#### Revenues

We generated revenues from our wireless business of Php58,935 million in the first half of 2013, an increase of Php1,079 million, or 2%, from Php57,856 million in the same period in 2012.



The following table summarizes our total revenues from our wireless business for the six months ended June 30, 2013 and 2012 by service segment:

	2013	%	2012 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Cellular	Php52,336	89	Php51,660	89	676	1
Wireless broadband, satellite and others						
Wireless broadband	4,680	8	4,215	7	465	11
Satellite and others	697	1	800	2	(103)	(13)
	57,713	98	56,675	98	1,038	2
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,222	2	1,181	2	41	3
<b>Total Wireless Revenues</b>	<b>Php58,935</b>	<b>100</b>	<b>Php57,856</b>	<b>100</b>	<b>Php1,079</b>	<b>2</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

### Service Revenues

Our wireless service revenues in the first half of 2013, increased by Php1,038 million, or 2%, to Php57,713 million as compared with Php56,675 million in the same period in 2012, mainly as a result of higher revenues from our cellular and wireless broadband services, partially offset by lower revenues from our satellite and other services. The increase in our cellular revenues was mainly due to higher domestic voice and internet-based VAS revenues, partially offset by a decrease in text messaging revenues, international voice and other VAS revenues. The increase in our wireless broadband revenues was mainly due to a 7% growth in our broadband subscriber base. 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 Php41.24 for the six months ended June 30, 2013 from Php42.90 for the six months ended June 30, 2012. 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 half of 2013 were lower as compared with the same period in 2012. As a percentage of our total wireless revenues, service revenues accounted for 98% in each of the first half of 2013 and 2012.

#### Cellular Service

Our cellular service revenues in the first half of 2013 amounted to Php52,336 million, an increase of Php676 million, or 1%, from Php51,660 million in the same period in 2012. Cellular service revenues accounted for 91% of our wireless service revenues in each of the first half of 2013 and 2012.

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

The following table shows the breakdown of our cellular service revenues for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
	(in millions)			
Cellular service revenues	Php52,336	Php51,660	Php676	1
<i>By service type</i>				
Prepaid	51,131	50,311	820	2
Postpaid	41,999	42,359	(360)	(1)
Postpaid	9,132	7,952	1,180	15
<i>By component</i>				
Voice	51,131	50,311	820	2
Data	25,153	24,700	453	2
Data	25,978	25,611	367	1
Others <sup>(2)</sup>	1,205	1,349	(144)	(11)

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

<sup>(2)</sup> Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLDT Landline Plus, or PLP, services, a small number of leased line contracts, and revenues from Chikka and other Smart subsidiaries.



The following table shows other key measures of our cellular business as at and for the six months ended June 30, 2013 and 2012:

	2013	2012	Increase (Decrease)	
			Amount	%
Cellular subscriber base	73,383,385	67,429,102	5,954,283	9
Prepaid	71,197,952	65,313,661	5,884,291	9
Smart	24,631,062	26,850,116	(2,219,054)	(8)
Talk 'N Text	31,821,014	23,992,900	7,828,114	33
Sun Cellular	14,745,876	14,470,645	275,231	2
Postpaid	2,185,433	2,115,441	69,992	3
Sun Cellular	1,357,926	1,473,382	(115,456)	(8)
Smart	827,507	642,059	185,448	29
Systemwide traffic volumes (in millions) <sup>(1)</sup>				
Calls (in minutes)	27,964	26,620	1,344	5
Domestic	26,175	24,950	1,225	5
Inbound	622	594	28	5
Outbound	25,553	24,356	1,197	5
International	1,789	1,670	119	7
Inbound	1,456	1,468	(12)	(1)
Outbound	333	202	131	65
SMS/Data count (in hits) <sup>(2)</sup>				
Text messages	264,558	256,439	8,119	3
Domestic	257,479	252,261	5,218	2
Bucket-Priced/Unlimited	257,050	251,852	5,198	2
Standard	240,134	236,441	3,693	2
International	16,916	15,411	1,505	10
Value-Added Services	429	409	20	5
Financial Services	7,058	4,153	2,905	70
Financial Services	21	25	(4)	(16)

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Revenues generated from our prepaid cellular services amounted to Php41,999 million in the first half of 2013, a decrease of Php360 million, or 1%, as compared with Php42,359 million in the same period in 2012. Prepaid cellular service revenues accounted for 82% and 84% of cellular voice and data revenues in the first half of 2013 and 2012, respectively. Revenues generated from postpaid cellular service amounted to Php9,132 million in the first half of 2013, an increase of Php1,180 million, or 15%, as compared with Php7,952 million earned in the same period in 2012, and which accounted for 18% and 16% of cellular voice and data revenues in the first half of 2013 and 2012, respectively. The decrease in revenues from our prepaid cellular services was primarily due to a decline in our revenues from outbound domestic standard SMS and international SMS, inbound and outbound international calls, and MMS/SMS-based VAS, partially offset by an increase in revenues from domestic bucket-priced/unlimited SMS, internet-based VAS and financial services. The increase in our postpaid cellular service revenues was primarily due to an increase in subscriber base.

#### Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php453 million, or 2%, to Php25,153 million in the first half of 2013 from Php24,700 million in the same period in 2012, primarily due to higher cellular domestic call revenues, partially offset by lower cellular international call revenues. Cellular voice services accounted for 48% of our cellular service revenues in each of the first half of 2013 and 2012.





The following table shows the breakdown of our cellular voice revenues for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
			(in millions)	
Voice services:				
Domestic				
Inbound	Php2,380	Php2,210	Php170	8
Outbound	14,861	14,212	649	5
	17,241	16,422	819	5
International				
Inbound	6,698	6,938	(240)	(3)
Outbound	1,214	1,340	(126)	(9)
	7,912	8,278	(366)	(4)
Total	Php25,153	Php24,700	Php453	2

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Domestic voice service revenues increased by Php819 million, or 5%, to Php17,241 million in the first half of 2013 from Php16,422 million in the same period in 2012, primarily due to an increase in domestic outbound and inbound voice service revenues by Php649 million and Php170 million, respectively.

Revenues from domestic outbound voice service increased by Php649 million, or 5%, to Php14,861 million in the first half of 2013 from Php14,212 million in the same period in 2012 mainly due to increased traffic on unlimited calls and improved yield on bucket offers. Domestic outbound call volume of 25,553 million minutes increased by 1,197 million minutes, or 5%, from 24,356 million minutes in the same period in 2012.

Revenues from our domestic inbound voice service increased by Php170 million, or 8%, to Php2,380 million in the first half of 2013 from Php2,210 million in the same period in 2012 primarily due to an increase in traffic originating from other domestic mobile carriers and a favorable traffic settlement adjustment. Domestic inbound call volumes of 622 million minutes in the first half of 2013, increased by 28 million minutes, or 5%, from 594 million minutes in the same period in 2012.

International voice service revenues decreased by Php366 million, or 4%, to Php7,912 million in the first half of 2013 from Php8,278 million in the same period in 2012 primarily due to lower international inbound voice service revenues by Php240 million, or 3%, to Php6,698 million in the first half of 2013 from Php6,938 million in the same period in 2012 resulting from a decrease in average international termination rates and lower international outbound voice service revenues by Php126 million, or 9%, to Php1,214 million in the first half of 2013 from Php1,340 million in the same period in 2012. The decrease in international voice service revenues was also due to the unfavorable effect on dollar-linked revenues of lower weighted average exchange rate of Php41.24 for the six months ended June 30, 2013 from Php42.90 for the six months ended June 30, 2012. International inbound and outbound calls totaled 1,789 million minutes, an increase of 119 million minutes, or 7%, from 1,670 million minutes in the same period in 2012.

#### Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php367 million, or 1%, to Php25,978 million in the first half of 2013 from Php25,611 million in the same period in 2012 primarily due to higher internet-based VAS, partially offset by lower text messaging revenues and MMS/SMS-based VAS. Cellular data services accounted for 50% in each of our cellular service revenues in the first half of 2013 and 2012.

The following table shows the breakdown of our cellular data service revenues for the six months ended June 30, 2013 and 2012:

	2013	2012	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging <sup>(1)</sup>				
Domestic	Php21,376	Php21,360	Php16	–
<i>Bucket-Priced/Unlimited</i>	14,931	14,164	767	5
<i>Standard</i>	6,445	7,196	(751)	(10)
International	1,759	1,922	(163)	(8)
	23,135	23,282	(147)	(1)
Value-added services				
Internet-based <sup>(2)</sup>	2,106	1,413	693	49
SMS-based <sup>(4)</sup>	272	322	(50)	(16)
<i>Pasa Load/Give-a-load<sup>(5)</sup></i>	271	344	(73)	(21)
MMS-based <sup>(5)</sup>	138	221	(83)	(38)
	2,787	2,300	487	21
Financial services	56	29	27	93
<b>Total</b>	<b>Php25,978</b>	<b>Php25,611</b>	<b>Php367</b>	<b>1</b>

- <sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
- <sup>(2)</sup> Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs.
- <sup>(3)</sup> Includes revenues from Pasa Load and Dial\*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial\*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.
- <sup>(4)</sup> Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.
- <sup>(5)</sup> Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

Text messaging-related services contributed revenues of Php23,135 million in the first half of 2013, a decrease of Php147 million, or 1%, as compared with Php23,282 million in the same period in 2012, and accounted for 89% and 91% of our total cellular data service revenues in the first half of 2013 and 2012, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower domestic standard and international messaging revenues, partially offset by higher text messaging revenues from the various bucket-priced/unlimited SMS offers. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php14,931 million in the first half of 2013, an increase of Php767 million, or 5%, as compared with Php14,164 million in the same period in 2012. Bucket-priced/unlimited text messages of 240,134 million in the first half of 2013, increased by 3,693 million, or 2%, from 236,441 million in the same period in 2012.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php751 million, or 10%, to Php6,445 million in the first half of 2013 from Php7,196 million in the same period in 2012, primarily due to increased preference for unlimited SMS offers. Standard text messages of 16,916 million in the first half of 2013, increased by 1,505 million, or 10%, from 15,411 million in the same period in 2012, as a result of increased domestic inbound SMS volume, partially offset by the decline in domestic outbound standard SMS volume.

International text messaging revenues amounted to Php1,759 million in the first half of 2013, a decrease of Php163 million, or 8%, from Php1,922 million in the same period in 2012 mainly due to the unfavorable effect of lower weighted average exchange rate on international inbound text messaging revenues, partially offset by the higher SMS traffic and effective dollar yield of international inbound SMS.

VAS contributed revenues of Php2,787 million in the first half of 2013, an increase of Php487 million, or 21%, as compared with Php2,300 million in the same period in 2012, primarily due to an increase in revenues from internet-based VAS, particularly from mobile internet browsing.

#### *Subscriber Base, ARPU and Churn Rates*

As at June 30, 2013, our cellular subscribers totaled 73,383,385, an increase of 5,954,283, or 9%, over the cellular subscriber base of 67,429,102 as at June 30, 2012. Our cellular prepaid subscriber base grew by 5,884,291, or 9%, to 71,197,952 as at June 30, 2013 from 65,313,661 as at June 30, 2012, and our cellular postpaid subscriber base increased by 69,922, or 3%, to 2,185,433 as at June 30, 2013 from 2,115,441 as at June 30, 2012. The increase in subscriber base was primarily due to the growth in *Talk 'N Text* prepaid subscribers and a net increase in *Sun Cellular* subscribers by



7,828,114 and 159,775, respectively, as at June 30, 2013. Prepaid subscribers accounted for 97% of our total subscriber base as at June 30, 2013 and 2012.

Our net subscriber activations for the six months ended June 30, 2013 and 2012 were as follows:

	2013	2012	Increase (Decrease)	
			Amount	%
Prepaid	3,586,415	3,520,869	65,546	2
Smart	(430,391)	(1,161,405)	731,014	(63)
Talk 'N Text	3,375,961	3,525,725	(149,764)	(4)
Sun Cellular	640,845	1,156,549	(515,704)	(45)
Postpaid	(69,488)	211,604	(281,092)	(133)
Smart	144,027	91,311	52,716	58
Sun Cellular	(213,515)	120,293	(333,808)	(277)
Total	3,516,927	3,732,473	(215,546)	(6)

Prepaid and postpaid subscribers reflected net activations of 3,586,415 and net reductions of 69,488 subscribers, respectively, in the first half of 2013 as compared with net activations of 3,520,869 and 211,604, respectively, in the same period in 2012.

The following table summarizes our average monthly churn rates for the six months ended June 30, 2013 and 2012:

	2013	2012
	(in %)	
Prepaid		
Smart	5.4	5.9
Talk 'N Text	3.4	4.9
Sun Cellular	9.7	10.6
Postpaid		
Smart	2.6	2.8
Sun Cellular	5.1	0.9

For *Smart Prepaid* subscribers, the average monthly churn rate in the first half of 2013 and 2012 were 5.4% and 5.9%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 3.4% and 4.9% in the first half of 2013 and 2012, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 9.7% and 10.6% in the first half of 2013 and 2012, respectively.

The average monthly churn rate for *Smart Postpaid* subscribers were 2.6% and 2.8% in the first half of 2013 and 2012, respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 5.1% and 0.9% in the first half of 2013 and 2012, respectively.

The following table summarizes our average monthly cellular ARPUs for the six months ended June 30, 2013 and 2012:

	Gross <sup>(1)</sup>		Increase (Decrease)		Net <sup>(2)</sup>		Increase (Decrease)	
	2013	2012 <sup>(3)</sup>	Amount	%	2013	2012 <sup>(3)</sup>	Amount	%
Prepaid								
Smart	Php161	Php171	(Php10)	(6)	Php141	Php149	(Php8)	(5)
Talk 'N Text	98	115	(17)	(15)	87	101	(14)	(14)
Sun Cellular	83	76	7	9	74	66	8	12
Postpaid								
Smart	1,168	1,278	(110)	(9)	1,154	1,253	(99)	(8)
Sun Cellular	511	419	92	22	508	417	91	22

<sup>(1)</sup> 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.

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

<sup>(3)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.



Our average monthly prepaid and postpaid ARPUs per quarter in 2013 and 2012 were as follows:

	Prepaid						Postpaid				
	Smart		Talk 'N Text		Sun Cellular <sup>(1)</sup>		Smart		Sun Cellular <sup>(1)</sup>		
	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	Gross <sup>(2)</sup>	Net <sup>(3)</sup>	
2013											
First Quarter	161	141	98	87	89	80	1,167	1,154	501	497	
Second Quarter	160	141	98	87	78	69	1,167	1,154	521	518	
2012 <sup>(4)</sup>											
First Quarter	176	153	116	102	76	65	1,292	1,269	414	411	
Second Quarter	167	145	113	100	75	66	1,264	1,237	424	422	
Third Quarter	163	141	107	93	79	69	1,253	1,252	417	413	
Fourth Quarter	171	150	106	93	87	77	1,265	1,248	419	416	

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

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

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

<sup>(4)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

### Wireless Broadband, Satellite and Other Services

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

#### Wireless Broadband

Revenues from our wireless broadband services increased by Php465 million, or 11%, to Php4,680 million in the first half of 2013 from Php4,215 million in the same period in 2012, primarily due to a 7% growth in broadband subscriber base.

The following table shows information of our wireless broadband subscriber base as at June 30, 2013 and 2012:

	2013	2012	Increase (Decrease)	
			Amount	%
Wireless Broadband Subscribers	2,322,416	2,168,727	153,689	7
<i>Prepaid</i>	1,547,849	1,442,623	105,226	7
Smart Broadband	1,254,400	1,184,579	69,821	6
Sun Broadband	293,449	258,044	35,405	14
<i>Postpaid</i>	774,567	726,104	48,463	7
Smart Broadband	549,120	450,280	98,840	22
Sun Broadband	225,447	275,824	(50,377)	(18)

*Smart Broadband* and *Sun Broadband Wireless*, SBI's and DMPI's broadband services, respectively, offer a number of wireless broadband services and had a total of 2,322,416 subscribers as at June 30, 2013, an increase of 153,689 subscribers, or 7%, as compared with 2,168,727 subscribers as at June 30, 2012, primarily due to an increase by 168,661, or 10%, in *Smart Broadband* subscribers, partially offset by a decrease in *Sun Broadband* subscribers by 14,972, or 3%, as at June 30, 2013. Our prepaid wireless broadband subscriber base increased by 105,226 subscribers, or 7%, to 1,547,849 subscribers as at June 30, 2013 from 1,442,623 subscribers as at June 30, 2012, while our postpaid wireless broadband subscriber base increased by 48,463 subscribers, or 7%, to 774,567 subscribers as at June 30, 2013 from 726,104 subscribers as at June 30, 2012.

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

SBI also offers mobile internet access through *SmartBro Plug-It*, a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity at varying connectivity speeds in places where there is Smart network coverage provided by either 3G high speed packet access (HSPA), 4G HSPA+ or Long Term Evolution, or LTE,



technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. SBI also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. *SmartBro LTE* offers the latest broadband technology with speeds of up to 45 Mbps. *SmartBro LTE Plug-It* and *SmartBro LTE Pocket Wifi* are also available in both postpaid and prepaid variants. We also have an additional array of load packages that offer per minute-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

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

#### Satellite and Other Services

Revenues from our satellite and other services decreased by Php103 million, or 13%, to Php697 million in the first half of 2013 from Php800 million in the same period in 2012, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS Philippines' subscribers and the effect of lower weighted average exchange rate of Php41.24 for the six months ended June 30, 2013 from Php42.90 for the six months ended June 30, 2012 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

#### Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php41 million, or 3%, to Php1,222 million in the first half of 2013 from Php1,181 million in the same period in 2012, primarily due to increased availments of cellular retention packages, as well as higher revenues from *Pocket WiFi* units sold, partially offset by lower revenues from cellular activation sales due to a decrease in the combined average retail price of cellular handsets/SIMpacks.

#### Expenses

Expenses associated with our wireless business amounted to Php39,658 million in the first half of 2013, an increase of Php566 million, or 1%, from Php39,092 million in the same period in 2012. A significant portion of this increase was attributable to higher expenses related to cost of sales, compensation and employee benefits, rent, asset impairment, professional and other contracted services, and other operating expenses, partially offset by lower depreciation and amortization, amortization of intangible assets, taxes and licenses, and selling and promotions expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 67% and 68% in the first half of 2013 and 2012, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the six months ended June 30, 2013 and 2012 and the percentage of each expense item in relation to the total:

	2013	%	2012 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Depreciation and amortization	Php8,144	21	Php8,756	22	(Php612)	(7)
Rent	4,929	12	4,782	12	147	3
Cost of sales	4,777	12	3,959	10	818	21
Compensation and employee benefits	4,262	11	3,833	10	429	11
Interconnection costs	4,181	10	4,200	11	(19)	-
Repairs and maintenance	3,941	10	3,995	10	(54)	(1)
Selling and promotions	3,488	9	3,643	9	(155)	(4)
Professional and other contracted services	1,849	5	1,765	5	84	5
Taxes and licenses	1,086	3	1,273	3	(187)	(15)
Asset impairment	796	2	658	2	138	21
Communication, training and travel	751	2	675	2	76	11
Insurance and security services	523	1	460	1	63	14
Amortization of intangible assets	452	1	712	2	(260)	(37)
Other expenses	479	1	381	1	98	26
<b>Total</b>	<b>Php39,658</b>	<b>100</b>	<b>Php39,092</b>	<b>100</b>	<b>Php566</b>	<b>1</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

Depreciation and amortization charges decreased by Php612 million, or 7%, to Php8,144 million primarily due to a lower depreciable asset base.

Rent expenses increased by Php147 million, or 3%, to Php4,929 million primarily due to an increase in leased circuit charges and office building rental, partially offset by lower site rental charges. In the six months ended June 30, 2013, we had 9,835 cell sites, 15,116 cellular/mobile broadband base stations and 2,898 fixed wireless broadband-enabled base stations, as compared with 10,509 cell sites, 13,149 cellular/mobile broadband base stations and 2,806 fixed wireless broadband-enabled base stations in the same period in 2012.

Cost of sales increased by Php818 million, or 21%, to Php4,777 million primarily due to higher cellular retention and activation subsidies as a result of an increase in availments of cellular retention packages and higher average cost of handsets.

Compensation and employee benefits expenses increased by Php429 million, or 11%, to Php4,262 million primarily due to higher MRP costs of Smart as a result of the retroactive adjustment of the application of the Revised PAS 19 of Php195 million in the first half of 2013, as well as higher salaries and employee benefits, LTIP costs, and provision for pension benefits. Employee headcount decreased to 8,045 as at June 30, 2013 as compared with 8,131 as at June 30, 2012, primarily due to the availment of the MRP by Smart and DMPI employees as at June 30, 2013.

Interconnection costs decreased by Php19 million to Php4,181 million primarily due to a decrease in interconnection charges on international calls and roaming SMS.

Repairs and maintenance expenses decreased by Php54 million, or 1%, to Php3,941 million mainly due to lower site electricity consumption and site facilities maintenance costs, partially offset by higher maintenance costs on IT software and hardware, and cellular and broadband network facilities.

Selling and promotion expenses decreased by Php155 million, or 4%, to Php3,488 million primarily due to lower advertising expenses, partially offset by higher commissions and public relations expenses.

Professional and other contracted service fees increased by Php84 million, or 5%, to Php1,849 million primarily due to an increase in call center, contracted and outsourced service costs, partly offset by lower consultancy and technical service fees.

Taxes and licenses decreased by Php187 million, or 15%, to Php1,086 million primarily due to lower business-related taxes and license fees.

Asset impairment increased by Php138 million, or 21%, to Php796 million primarily due to higher provision for uncollectible receivables, partially offset by lower provision for inventory obsolescence.

Communication, training and travel expenses increased by Php76 million, or 11%, to Php751 million primarily due to higher expenses related to mailing and courier, as well as freight and hauling, partially offset by lower travel expenses, communication charges and fuel consumption costs for vehicles.

Insurance and security services increased by Php63 million, or 14%, to Php523 million primarily due to higher office and site security expenses.

Amortization of intangible assets decreased by Php260 million, or 37%, to Php452 million primarily due to lower adjusted amortization of intangible assets related to customer list and franchise of DMPI as a result of final purchase price allocation for Digitel's acquisition.

Other expenses increased by Php98 million, or 26%, to Php479 million primarily due to higher various business and operational-related expenses.

### Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Interest income	Php226	Php296	(Php70)	(24)
Gains (losses) on derivative financial instruments – net	4	(38)	42	(111)
Equity share in net losses of associates	(41)	(25)	(16)	64
Foreign exchange gains (losses) – net	(1,397)	1,099	(2,496)	(227)
Financing costs – net	(1,512)	(1,370)	(142)	10
Others	(56)	400	(456)	(114)
<b>Total</b>	<b>(Php2,776)</b>	<b>Php362</b>	<b>(Php3,138)</b>	<b>(867)</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our wireless business' other expenses amounted to Php2,776 million in the first half of 2013, a change of Php3,138 million, or 867%, as against other income of Php362 million in the same period in 2012, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php1,397 million in the first half of 2013 as against net foreign exchange gains of Php1,099 million in the same period in 2012 on account of revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php42.28 as at June 30, 2012 from Php43.92 as at December 31, 2011; (ii) a decrease in other income by Php456 million mainly due to lower recovery of prior years' provision and lower income from consultancy; (iii) higher net financing costs by Php142 million primarily due to lower capitalized interest and a higher outstanding debt balance, partly offset by the lower weighted average interest rates on loans and lower financing charges; (iv) a decrease in interest income by Php70 million mainly due to lower weighted average interest rates, lower principal amounts of dollar and peso placements, and the lower weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by higher U.S. dollar interest rates and longer average tenor of U.S. dollar and Philippine peso placements in the first half of 2013; (v) an increase in equity share in net losses of associates by Php16 million; and (vi) net gains on derivative financial instruments by Php4 million in the first half of 2013 as compared with net loss of Php38 million in the same period in 2012 mainly on account of mark-to-market gain on derivatives as a result of the depreciation of the Philippine peso in the first half of 2013 as against the appreciation of the Philippine peso in the same period in 2012 and a wider dollar and peso interest rate differentials.

### Provision for Income Tax

Provision for income tax decreased by Php1,833 million, or 32%, to Php3,837 million in the first half of 2013 from Php5,670 million in the same period in 2012 primarily due to lower taxable income. The effective tax rates for our wireless business were 23% and 30% in the first half of 2013 and 2012, respectively.

### Net Income

As a result of the foregoing, our wireless business' net income decreased by Php792 million, or 6%, to Php12,664 million from Php13,456 million recorded in the same period in 2012.

### EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php164 million, or 1%, to Php28,068 million in the first half of 2013 from Php28,232 million in the same period in 2012.

### Core Income

Our wireless business' core income increased by Php1,296 million, or 10%, to Php14,003 million in the first half of 2013 from Php12,707 million in the same period in 2012 on account of a decrease in provision for income tax and an increase in wireless revenues, partially offset by a decrease in other income and higher wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php195 million in the first half of 2013.

## Fixed Line

### Revenues

Revenues generated from our fixed line business amounted to Php31,476 million in the first half of 2013, an increase of Php1,656 million, or 6%, from Php29,820 million in the same period in 2012.

The following table summarizes our total revenues from our fixed line business for the six months ended June 30, 2013 and 2012 by service segment:

	2013	%	2012 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
(in millions)						
Service Revenues:						
Local exchange	Php8,128	26	Php8,289	28	(Php161)	(2)
International long distance	5,770	18	5,289	18	481	9
National long distance	2,344	7	2,631	9	(287)	(11)
Data and other network	13,444	43	12,417	41	1,027	8
Miscellaneous	988	3	863	3	125	14
	30,674	97	29,489	99	1,185	4
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	802	3	331	1	471	142
<b>Total Fixed Line Revenues</b>	<b>Php31,476</b>	<b>100</b>	<b>Php29,820</b>	<b>100</b>	<b>Php1,656</b>	<b>6</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

### Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,185 million, or 4%, to Php30,674 million in the first half of 2013 from Php29,489 million in the same period in 2012 due to an increase in the revenue contribution of our data and other network, international long distance and miscellaneous services, partially offset by decreases in national long distance and local exchange services.

#### Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php8,128	Php8,289	(Php161)	(2)
Number of fixed line subscribers	2,061,051	2,133,478	(72,427)	(3)
Postpaid	2,000,357	2,011,565	(11,208)	(1)
Prepaid	60,694	121,913	(61,219)	(50)
Number of fixed line employees	7,033	8,401	(1,368)	(16)
Number of fixed line subscribers per employee	293	254	39	15

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Revenues from our local exchange service decreased by Php161 million, or 2%, to Php8,128 million in the first half of 2013 from Php8,289 million in the same period in 2012, primarily due to lower weighted average billed lines and a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services. The percentage contribution of local exchange revenues to our total fixed line service revenues was 26% and 28% in the first half of 2013 and 2012, respectively.





### International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php5,770	Php5,289	Php481	9
Inbound	5,084	4,598	486	11
Outbound	686	691	(5)	(1)
International call volumes (in million minutes, except call ratio)	1,114	1,050	64	6
Inbound	909	805	104	13
Outbound	205	245	(40)	(16)
Inbound-outbound call ratio	4.4:1	3.3:1	-	-

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our total international long distance service revenues increased by Php481 million, or 9%, to Php5,770 million in the first half of 2013 from Php5,289 million in the same period in 2012, primarily due to the increase in call volumes and the increase in average collection and settlement rates in dollar terms, partially offset by the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar to Php41.24 in the first half of 2013 from Php42.90 in the same period in 2012. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% and 18% in the first half of 2013 and 2012, respectively.

Our revenues from inbound international long distance service increased by Php486 million, or 11%, to Php5,084 million in the first half of 2013 from Php4,598 million in the same period in 2012 primarily due to the increase in inbound call volumes and the increase in average settlement rate in dollar terms, partially offset by the unfavorable effect on our inbound revenues of a lower weighted average exchange rate of the Philippine peso to the U.S. dollar.

Our revenues from outbound international long distance service decreased by Php5 million, or 1%, to Php686 million in the first half of 2013 from Php691 million in the same period in 2012, primarily due to the decrease in call volumes and the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar to Php41.24 for the six months ended June 30, 2013 from Php42.90 for the six months ended June 30, 2012, and a decrease in the average billing rate to Php40.93 in the first half of 2013 from Php43.06 in the same period in 2012, partially offset by the increase in the average collection rate in dollar terms.

Our total international long distance service revenues amounted to Php2,308 million, net of interconnection costs of Php3,462 million, in the first half of 2013, decreased by Php52 million, or 2%, from Php2,360 million, net of interconnection costs of Php2,929 million, in the same period in 2012. The decrease was primarily due to lower inbound international long distance service revenues by Php127 million, or 7%, to Php1,738 million in the first half of 2013 from Php1,865 million in the same period in 2012 due to lower average settlement rate in dollar terms and the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar, partly offset by an increase in call volumes. The decrease was partially offset by higher outbound international long distance service revenues by Php75 million, or 15%, to Php570 million in the first half of 2013 from Php495 million in the same period in 2012 as a result of higher average collection rate in dollar terms, offset by the decrease in call volumes and the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar.

### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php2,344	Php2,631	(Php287)	(11)
National long distance call volumes (in million minutes)	430	515	(85)	(17)

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our national long distance service revenues decreased by Php287 million, or 11%, to Php2,344 million in the first half of 2013 from Php2,631 million in the same period in 2012, 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. The percentage contribution of national long distance revenues to our fixed line service revenues was 8% and 9% in the first half of 2013 and 2012, respectively.

Our national long distance service revenues amounted to Php1,815 million, net of interconnection costs of Php529 million, in the first half of 2013, decreased by Ph222 million, or 11%, from Php2,037 million, net of interconnection costs of Php594 million, in the same period in 2012, 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.

#### *Data and Other Network Services*

The following table shows information of our data and other network service revenues for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php13,444	Php12,417	Php1,027	8
Domestic	9,809	9,241	568	6
<i>DSL Broadband</i>	5,957	5,564	393	7
<i>Leased Lines and Others</i>	3,852	3,677	175	5
International				
<i>Leased Lines and Others</i>	2,787	2,719	68	3
Data Centers	848	457	391	86
Subscriber base				
<i>DSL Broadband</i>	920,147	870,650	49,497	6
<i>SWUP</i>	26,681	20,959	5,722	27

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our data and other network services posted revenues of Php13,444 million in the first half of 2013, an increase of Php1,027 million, or 8%, from Php12,417 million in the same period in 2012, primarily due to higher revenues from *PLDT DSL*, data centers, and domestic leased line revenues resulting from the higher revenue contribution of Metro Ethernet, as well as higher international data revenues primarily from i-Gate. The percentage contribution of this service segment to our fixed line service revenues was 44% and 42% in the first half of 2013 and 2012, respectively.

#### *Domestic*

Domestic data services contributed Php9,809 million in the first half of 2013, an increase of Php568 million, or 6%, as compared with Php9,241 million in the same period in 2012 mainly due to higher DSL and Metro Ethernet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower internet exchange and IP-VPN revenues. The percentage contribution of domestic data service revenues to total data and other network services was 73% and 74% in the first half of 2013 and 2012, 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.

DSL Broadband data revenues amounted to Php5,957 million in the first half of 2013, an increase of Php393 million, or 7%, from Php5,564 million in the same period in 2012 as a result of the increase in the number of subscribers by 49,497, or 6%, to 920,147 subscribers as at June 30, 2013 from 870,650 subscribers as at June 30, 2012. DSL Broadband revenues accounted for 44% and 45% of total data and other network service revenues in the first half of 2013 and 2012, respectively.

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### *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 June 30, 2013, *SWUP* had a total subscriber base of 26,681 up by 5,722, or 27%, from 20,959 subscribers in the same period in 2012. Leased lines and other data revenues amounted to Php3,852 million in the first half of 2013, an increase of Php175 million, or 5%, from Php3,677 million in the same period in 2012, primarily due to higher revenues from Metro Ethernet and *Shops.Work*, partially offset by lower internet exchange and IP-VPN revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services was 29% in each of the first half of 2013 and 2012.

### International

#### *Leased Lines and Others*

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php68 million, or 3%, to Php2,787 million in the first half of 2013 from Php2,719 million in the same period in 2012, primarily due to higher i-Gate revenues and an increase in revenues from various global service providers, partially offset by lower inland-cable lease and Fibernet revenues, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues was 21% and 22% in the first half of 2013 and 2012, respectively.

### Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Data center revenues increased by Php391 million, or 86%, to Php848 million in the first half of 2013 from Php457 million in the same period in 2012 mainly due to higher co-location and managed services as a result of the consolidation of IPCDSI in October 2012. The percentage contribution of this service segment to our total data and other network service revenues was 6% and 4% in the first half of 2013 and 2012, respectively.

### *Miscellaneous Services*

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues increased by Php125 million, or 14%, to Php988 million in the first half of 2013 from Php863 million in the same period in 2012 mainly due to higher facilities management fees, rental and directory advertising, and the revenue contribution of PGNL, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first half of 2013 and 2012.

### **Non-service Revenues**

Non-service revenues increased by Php471 million, or 142%, to Php802 million in the first half of 2013 from Php331 million in the same period in 2012, primarily due to higher revenues from *Telpad* units and UNO equipment sold.

## Expenses

Expenses related to our fixed line business totaled Php27,227 million in the first half of 2013, an increase of Php777 million, or 3%, as compared with Php26,450 million in the same period in 2012. The increase was primarily due to higher expenses related to interconnection costs, cost of sales, repairs and maintenance, rent, professional and other contracted services, and selling and promotions, partly offset by lower expenses related to compensation and employee benefits, depreciation and amortization, communication, training and travel, and insurance and security services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 87% and 89% in the first half of 2013 and 2012, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the six months ended June 30, 2013 and 2012 and the percentage of each expense item to the total:

	2013	%	2012 <sup>(1)</sup>	%	Increase (Decrease)	
					Amount	%
(in millions)						
Compensation and employee benefits	Php6,765	25	Php7,521	28	(Php756)	(10)
Depreciation and amortization	6,388	24	6,533	25	(145)	(2)
Interconnection costs	4,127	15	3,672	14	455	12
Repairs and maintenance	2,935	11	2,667	10	268	10
Professional and other contracted services	1,784	7	1,625	6	159	10
Rent	1,396	5	1,140	4	256	22
Selling and promotions	808	3	671	3	137	20
Cost of sales	802	3	524	2	278	53
Taxes and licenses	630	2	594	2	36	6
Asset impairment	595	2	526	2	69	13
Communication, training and travel	392	1	414	2	(22)	(5)
Insurance and security services	283	1	296	1	(13)	(4)
Amortization of intangible assets	1	–	–	–	1	100
Other expenses	321	1	267	1	54	20
<b>Total</b>	<b>Php27,227</b>	<b>100</b>	<b>Php26,450</b>	<b>100</b>	<b>Php777</b>	<b>3</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

Compensation and employee benefits expenses decreased by Php756 million, or 10%, to Php6,765 million primarily due to lower MRP costs, net of the retroactive adjustment of the application of the Revised PAS 19 of Php732 million in the first half of 2013, and lower provision for LTIP costs, partially offset by higher provision for pension, and salaries and employee benefits. Employee headcount decreased to 9,858 in the first half of 2013 as compared with 11,175 in the same period in 2012 mainly due to a decrease in PLDT's and Digitel's headcounts as a result of the MRP, partially offset by an increase in the number of employee headcount of iPlus.

Depreciation and amortization charges decreased by Php145 million, or 2%, to Php6,388 million due to lower depreciable asset base.

Interconnection costs increased by Php455 million, or 12%, to Php4,127 million primarily due to higher international long distance interconnection/settlement costs as a result of higher international received paid calls that terminated to other domestic carriers, partially offset by lower settlement costs for national long distance interconnection costs and data and other network services particularly Fibernet and Infonet.

Repairs and maintenance expenses increased by Php268 million, or 10%, to Php2,935 million primarily due to higher repairs and maintenance costs for buildings, office electricity cost, and IT software partially offset by a decrease in site electricity cost, lower repairs and maintenance costs on central office/telecoms equipment, cable and wire facilities, vehicles, furniture and other work equipment, and lower site fuel and electricity consumption.

Professional and other contracted service expenses increased by Php159 million, or 10%, to Php1,784 million primarily due to higher contracted service and legal fees, partially offset by lower consultancy and technical service fees.

Rent expenses increased by Php256 million, or 22%, to Php1,396 million primarily due to higher site and pole rentals, and domestic leased circuit charges, partially offset by lower international leased circuits charges.

Selling and promotion expenses increased by Php137 million, or 20%, to Php808 million primarily due to higher advertising and commissions expenses.

Cost of sales increased by Php278 million, or 53%, to Php802 million primarily due to higher revenues from the sale of *Telpad* units and *UNO* equipment.

Taxes and licenses increased by Php36 million, or 6%, to Php630 million as a result of higher municipal licenses and other business-related taxes.

Asset impairment increased by Php69 million, or 13%, to Php595 million mainly due to higher provision for uncollectible receivables.

Communication, training and travel expenses decreased by Php22 million, or 5%, to Php392 million mainly due to a decrease in mailing and courier, and fuel consumption charges, partially offset by higher local and foreign training and travel.

Insurance and security services decreased by Php13 million, or 4%, to Php283 million primarily due to lower office security services, partially offset by higher expenses on insurance and bond premiums.

Amortization of intangible assets amounted to Php1 million relating to the amortization of intangible assets related to customer list and licenses in relation to IP Converge Data Services, Inc.'s acquisition.

Other expenses increased by Php54 million, or 20%, to Php321 million primarily due to higher various business and operational-related expenses.

### **Other Expenses**

The following table summarizes the breakdown of our total fixed line-related other expenses for the six months ended June 30, 2013 and 2012:

	2013	2012 <sup>(1)</sup>	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php444	(Php399)	Php843	(211)
Interest income	227	314	(87)	(28)
Equity share in net earnings of associates	23	113	(90)	(80)
Foreign exchange gains (losses) – net	(868)	507	(1,375)	(271)
Financing costs – net	(1,823)	(1,994)	171	(9)
Others	1,703	565	1,138	201
<b>Total</b>	<b>(Php294)</b>	<b>(Php894)</b>	<b>Php600</b>	<b>(67)</b>

<sup>(1)</sup> The June 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

Our fixed line business' other expenses amounted to Php294 million in the first half of 2013, a decrease of Php600 million, or 67%, from Php894 million in the same period in 2012. The decrease was due to the combined effects of the following: (i) an increase in other income by Php1,138 million mainly due to the gain on sale of Philweb shares in the first half of 2013; (ii) net gains on derivative financial instruments of Php444 million in the first half of 2013 as against net losses on derivative financial instruments of Php399 million in the same period in 2012 due to maturity of 2012 hedges, the depreciation of the Philippine peso and a wider dollar and peso interest rate differentials; (iii) a decrease in interest income by Php87 million due to lower weighted average interest rates, lower principal amount of dollar placements, impact of the lower weighted average exchange rate of the Philippine peso on dollar placements and shorter average tenor of dollar and peso placements; (iv) lower equity share in net earnings of associates and joint ventures by Php90 million as a result of the disposal of Philweb Corporation in 2012; and (v) foreign exchange losses of Php868 million in the first six months of 2013 as against foreign exchange gains of Php507 million in the same period in 2012 on account of revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php42.28 as at June 30, 2012 from Php43.92 as at December 31, 2011.

### *Provision for Income Tax*

Provision for income tax amounted to Php767 million in the first half of 2013, an increase of Php206 million, or 37%, from Php561 million in the same period in 2012, primarily due to higher taxable income. The effective tax rates for our fixed line business were 19% and 23% in the first half of 2013 and 2012, respectively.

### **Net Income**

As a result of the foregoing, our fixed line business contributed a net income of Php3,188 million in the first half of 2013, increased by Php1,273 million, or 66%, as compared with Php1,915 million in the same period in 2012.

### **EBITDA**

As a result of the foregoing, our fixed line business' EBITDA increased by Php1,467 million, or 15%, to Php11,370 million in the first half of 2013 from Php9,903 million in the same period in 2012.

### **Core Income**

Our fixed line business' core income increased by Php2,190 million, or 125%, to Php3,946 million in the first half of 2013 from Php1,756 million in the same period in 2012, primarily as a result of higher fixed line revenues and a decrease in other expenses, partially offset by an increase in provision for income tax and higher fixed line expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php732 million in the first half of 2013.

### **Others**

#### **Expenses**

Expenses associated with our other business segment totaled Php2 million in the first half of 2013, a decrease of Php9 million, or 82%, as compared with Php11 million in the same period in 2012, primarily due to PCEV's lower other operating expenses.

#### **Other Income**

The following table summarizes the breakdown of other income for other business segment for the six months ended June 30, 2013 and 2012:

	2013	2012	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,118	Php1,223	(Php105)	(9)
Foreign exchange gains – net	343	–	343	100
Interest income	40	9	31	344
Others	437	2,229	(1,792)	(80)
<b>Total</b>	<b>Php1,938</b>	<b>Php3,461</b>	<b>(Php1,523)</b>	<b>(44)</b>

Other income decreased by Php1,523 million, or 44%, to Php1,938 million in the first half of 2013 from Php3,461 million in the same period in 2012 primarily due to lower other income by Php1,792 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon in the first half of 2012, decrease in equity share in net earnings of associates by Php105 million mainly due to the decrease in PCEV's share in the net earnings of Beacon, which includes its share in the results of operations of Meralco.

In the first half of 2013, Meralco's reported and core income amounted to Php9,441 million and Php9,174 million, respectively, compared with Php9,752 million and Php9,023 million, respectively, in the same period in 2012. The increase in consolidated reported and core income is primarily due to the increase in billed customers, higher volume sold and slightly higher average distribution rate in the first half of 2013. PCEV's share in the reported and core income of Meralco, including its share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of



Meralco, amounted to Php1,118 million and Php1,026 million, respectively, in the first half of 2013, and Php1,224 million and Php1,317 million, respectively, in the same period in 2012.

### Net Income

As a result of the foregoing, our other business segment registered a net income of Php1,863 million, a decrease of Php1,583 million, or 46%, in the first half of 2013 from Php3,446 million in the same period in 2012.

### EBITDA

As a result of the foregoing, negative EBITDA from our other business segment decreased by Php9 million, or 82%, to negative Php2 million in the first half of 2013 from negative Php11 million in the same period in 2012.

### Core Income

Our other business segment's core income amounted to Php1,399 million in the first half of 2013, a decrease of Php2,140 million, or 60%, as compared with Php3,539 million in the same period in 2012 mainly as a result of a lower other income and a decrease in the equity share of Beacon.

### Liquidity and Capital Resources

The following table shows our consolidated cash flows for the six months ended June 30, 2013 and 2012, as well as our consolidated capitalization and other consolidated selected financial data as at June 30, 2013 and December 31, 2012:

	Six months ended June 30,	
	2013	2012
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php31,798	Php35,920
Net cash provided by (used in) investing activities	1,153	(12,485)
Capital expenditures	4,787	9,298
Net cash used in financing activities	31,552	37,632
Net increase (decrease) in cash and cash equivalents	1,837	(14,445)
	<b>June 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012<sup>(1)</sup></b>
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php87,263	Php102,811
Obligations under finance lease	8	10
	87,271	102,821
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	30,632	12,981
Obligations under finance lease maturing within one year	7	8
	30,639	12,989
Total interest-bearing financial liabilities	117,910	115,810
Total equity attributable to equity holders of PLDT	143,600	145,550
	Php261,510	Php261,360
Other Selected Financial Data		
Total assets <sup>(1)</sup>	Php395,611	Php405,815
Property, plant and equipment	189,164	200,078
Cash and cash equivalents	40,133	37,161
Short-term investments	3,385	574

<sup>(1)</sup> The December 31, 2012 comparative information was restated to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

Our consolidated cash and cash equivalents and short-term investments totaled Php43,518 million as at June 30, 2013. Principal sources of consolidated cash and cash equivalents in the first half of 2013 were cash flows from operating activities amounting to Php31,798 million, proceeds from availment of long-term debt of Php16,722 million, proceeds from disposal of investments, including the sale of Philweb shares, of Php14,050 million, interest received of Php535 million and dividends received of Php431 million. These funds were used principally for: (1) dividend payments of Php24,153 million; (2) debt principal and interest payments of Php18,066 million and Php2,509 million, respectively;

(3) capital outlays of Php4,787 million; (4) net payment of capital expenditure under long-term financing of Php3,238 million; (5) payment for deposit for future PDR subscription of Php2,600 million; and (5) settlements of derivative financial instruments of Php187 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php32,223 million as at June 30, 2012. Principal sources of consolidated cash and cash equivalents in the first half of 2012 were cash flows from operating activities amounting to Php35,920 million, proceeds from availment of long-term debt and notes payable of Php27,647 million, interest received of Php646 million and dividends received of Php225 million. These funds were used principally for: (1) dividend payments of Php23,935 million; (2) debt principal and interest payments of Php29,055 million and Php2,764 million, respectively; (3) capital outlays of Php9,298 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php7,626 million; (5) Trust Fund and settlement for redemption of shares of Php5,647 million; (6) net payment of capital expenditures under long-term financing of Php2,920 million; and (7) settlements of derivative financial instruments of Php693 million.

### ***Operating Activities***

Our consolidated net cash flows from operating activities decreased by Php4,122 million, or 11%, to Php31,798 million in the first half of 2013 from Php35,920 million in the same period in 2012, primarily due to higher settlement of accounts payable and other various liabilities, higher pension contributions and lower cash flow from operating activities' contribution of discontinued operations, partially offset by higher level of collection of receivables and higher operating income.

Cash flows provided by operating activities of our fixed line business decreased by Php5,980 million, or 42%, to Php8,326 million in the first half of 2013 from Php14,306 million in the same period in 2012, primarily due to higher level of settlement of accounts payable and other liabilities, lower collection of receivables and higher pension contributions, partially offset by higher operating income. Conversely, cash flows from operating activities of our wireless business increased by Php1,083 million, or 5%, to Php21,747 million in the first half of 2013 from Php20,664 million in the same period in 2012, primarily due to higher level of collection of outstanding receivables and lower level of settlement of accounts payable, partially offset by higher level of settlement of other current liabilities and lower operating income.

### ***Investing Activities***

Consolidated net cash provided by investing activities amounted to Php1,153 million in the first half of 2013, a change of Php13,638 million, or 109%, as against net cash used in investing activities of Php12,485 million in the same period in 2012, primarily due to the combined effects of the following: (1) proceeds from sale of BPO and Philweb shares of Php14,050 million; (2) lower payment for investment in joint ventures, associates and subsidiaries of Php5,982 million; (3) the decrease in capital expenditures by Php4,511 million; (4) lower net proceeds from disposal of investments available for sale of Php3,578 million; (5) increase in short-term investments by Php2,729 million; (6) payment for deposit for PDR subscription of Php2,600 million; and (7) higher dividends received by Php206 million.

Our consolidated capital expenditures in the first half of 2013 totaled Php4,787 million, a decrease of Php4,511 million, or 49%, as compared with Php9,298 million in the same period in 2012, primarily due to decreases in the Digitel Group's, Smart Group's and PLDT's capital spending. Smart Group's capital spending of Php2,514 million in the first half of 2013 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. PLDT's capital spending of Php1,895 million in the first half of 2013 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Digitel's capital spending of Php243 million in the first half of 2013 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. The balance 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 half of 2013 amounted to Php431 million, an increase of Php206 million, or 92%, as compared with Php225 million in the same period in 2012. The dividends received in the first half of 2013 were from Beacon and Philweb. The dividends received in the first half of 2012 were from Meralco and Philweb.

### ***Financing Activities***

On a consolidated basis, net cash used in financing activities amounted to Php31,552 million, a decrease of Php6,080 million, or 16% as compared with Php37,632 million in the same period in 2012, resulting largely from the combined effects of the following: (1) lower repayments of long-term debt and notes payable by Php10,989 million; (2) creation of Trust Fund for the redemption of shares of Php5,647 million in 2012; (3) lower settlement of derivative financial instruments of Php506 million; (4) lower interest payment by Php255 million; (5) higher cash dividends paid by Php218 million; and (6) lower proceeds from the issuance of long-term debt and notes payable by Php10,925 million.

### ***Debt Financing***

Proceeds from availment of long-term debt for the six months ended June 30, 2013 amounted to Php16,722 million, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php18,116 million and Php2,509 million, respectively, in the first half of 2013.

Our consolidated long-term debt increased by Php2,103 million, or 2%, to Php117,895 million as at June 30, 2013 from Php115,792 million as at December 31, 2012, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso relative to the U.S. dollar to Php43.26 as at June 30, 2013 from Php41.08 as at December 31, 2012 as compared with the appreciation of the Philippine peso relative to the U.S. dollar to Php42.28 as at June 30, 2012 from Php43.92 as at December 31, 2011, partially offset by debt amortizations and prepayments. As at June 30, 2013, Smart's and PLDT's long-term debt levels increased by 9% and 3% to Php41,311 million and Php60,936 million, respectively, while the long-term debt levels of Digitel decreased by 14% to Php15,648 million as compared with December 31, 2012.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with the Bank of Tokyo-Mitsubishi UFJ, Ltd. as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were partially drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amount of US\$200 million, or Php8,651 million, remained outstanding as at June 30, 2013.

On January 28, 2013, Smart signed a US\$35 million five-year term loan facility agreement with China Banking Corporation, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amount of US\$35 million, or Php1,514 million, remained outstanding as at June 30, 2013.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. Nordea Bank will subsequently assign its rights and obligations to the SEK guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. No availment has been made on this facility as at August 7, 2013.

On March 25, 2013, Smart signed a US\$50 million five-year term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. This loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. No availment has been made on this loan as at August 7, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date. No availment has been made on this loan as at August 7, 2013.

On June 19, 2013, Smart issued Php1,376 million fixed rate corporate notes under a Notes Agreement dated June 14, 2013, comprised of Series A five-year notes amounting to Php742 million and Series B ten-year notes amounting to Php634 million. Proceeds from the issuance of these notes were used primarily for debt refinancing of Smart. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 97% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting June 19, 2014 with the balance of 92% payable on March 19, 2022. The aggregate amounts of Php1,376 million remained outstanding as at June 30, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility will be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date. No availment has been made on this loan as at August 7, 2013.

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A six-year notes amounting to Php1,735 million and Series B nine-year notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issued price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over nine years with an annual amortization rate of 1% of the issue price up to the eighth year and the balance payable upon maturity on September 21, 2022. The amount of Php2,055 million remained outstanding as at June 30, 2013.

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate note under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the 5<sup>th</sup> year from the issue date and the balance upon maturity on July 29, 2019.

As a result of the acquisition of Digitel, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGSHI, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGSHI. These loans and guarantees contained certain representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGSHI by PLDT as guarantor under these loans. As at June 30, 2013, the outstanding balance of DMPI loans covered by PLDT guarantees is Php12,699 million. There are no outstanding Digitel loans covered by PLDT guarantees as at June 30, 2013.

Approximately Php64,341 million principal amount of our consolidated outstanding long-term debt as at June 30, 2013 is scheduled to mature over the period from 2013 to 2016. Of this amount, Php21,392 million is attributable to PLDT, Php31,017 million to Smart and Php11,932 million to the Digitel Group.

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

### **Debt Covenants**

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

As at June 30, 2013, we were in compliance with all of our debt covenants.

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

### **Financing Requirements**

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

### **Off-Balance Sheet Arrangements**

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

### **Equity Financing**

Our current dividend policy is to pay out 70% of our core earnings per share taking into consideration the interest of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends up to the 30% balance of our core earnings or share buybacks. We were able to declare dividend payouts of approximately 100% of our core earnings for six consecutive years from 2007 to 2012. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries.

Consolidated cash dividend payments in the first half of 2013 amounted to Php24,153 million as compared with Php23,935 million paid to shareholders in the same period in 2012.



The following table shows the dividends declared to common and preferred shareholders from the earnings for the six months ended June 30, 2013 and 2012:

Earnings	Date			Amount	
			Payable	Per share	Total Declared
(in millions, except per share amount)					
2012					
Common					
Regular Dividend	August 7, 2012	August 31, 2012	September 28, 2012	Php60	Php12,963
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	August 7, 2012	August 22, 2012	September 15, 2012	–	25
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1	–
Charged to Retained Earnings					12,988
2013					
Common					
Regular Dividend	August 7, 2013	August 30, 2013	September 27, 2013	63	13,612
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock <sup>(1)</sup>	Various	Various	Various	–	25
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1	–
Voting Preferred Stock	Various	Various	Various		5
Charged to Retained Earnings					Php13,642

<sup>(1)</sup> Dividends were declared based on total amount paid up.

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 June 30, 2013 and 2012, see *Note 27 – Financial Assets and Liabilities – Liquidity Risks* to the accompanying unaudited consolidated financial statements.

### Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php118 million and Php342 million as at June 30, 2013 and December 31, 2012, 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 June 30, 2013 and March 31, 2013:

	Fair Values	
	June 30, 2013	March 31, 2013
	(Unaudited) (in millions)	
<b>Noncurrent Financial Assets</b>		
Available-for-sale financial investments		
Listed equity securities	Php107	Php106
Unlisted equity securities	5,586	5,565
Investments in debt securities and other long-term investments – net of current portion	695	370
Derivative financial assets – interest rate swap	38	–
Advances and other noncurrent assets – net of current portion	1,286	1,289
<b>Total noncurrent financial assets</b>	<b>7,712</b>	<b>7,330</b>
<b>Current Financial Assets</b>		
Cash and cash equivalents	40,133	39,135
Short-term investments	3,385	1,587
Trade and other receivables – net	17,234	16,895
Derivative financial assets	1	–
Current portion of investment in debt securities and other long-term investments	91	–
Current portion of advances and other noncurrent assets	7,873	7,895
<b>Total current financial assets</b>	<b>68,717</b>	<b>65,512</b>
<b>Total Financial Assets</b>	<b>Php76,429</b>	<b>Php72,842</b>
<b>Noncurrent Financial Liabilities</b>		
Interest-bearing financial liabilities	Php93,659	Php108,426
Derivative financial liabilities	2,114	2,688
Customers' deposits	2,051	2,119
Deferred credits and other noncurrent liabilities	15,325	17,077
<b>Total noncurrent financial liabilities</b>	<b>113,149</b>	<b>130,310</b>
<b>Current Financial Liabilities</b>		
Accounts payable	24,104	24,831
Accrued expenses and other current liabilities	54,662	55,435
Interest-bearing financial liabilities	30,639	12,004
Dividends payable	899	25,010
Derivative financial liabilities	554	853
<b>Total current financial liabilities</b>	<b>110,858</b>	<b>118,133</b>
<b>Total Financial Liabilities</b>	<b>Php224,007</b>	<b>Php248,443</b>

<sup>(1)</sup> The December 31, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.

The following table sets forth the amount of gains (losses) recognized for the financial assets and liabilities for the months ended June 30, 2013 and March 31, 2013:

	June 30,	March 31,
	2013	2013
	(in millions)	
<b>Profit and Loss</b>		
From continuing operations		
Interest income	Php485	Php296
Gains (losses) on derivative financial instruments – net	448	23
Accretion on financial liabilities	(697)	(260)
Interest on loans and other related items	(2,649)	(1,273)
Discontinued operations		
Interest income	3	3
Interest on loans and other related items	(4)	(4)
<b>Other Comprehensive Income</b>		
Net fair value losses on cash flow hedges – net of tax	(181)	(323)
Net gains on available-for-sale financial investments – net of tax	25	18

### 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 half of 2013 and 2012 was 2.9% and 3.0%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

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## PART II – OTHER INFORMATION

### ***PLDT's Acquisition of Subscription Assets of Digitel***

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel's subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed. This transaction is in line with the integration of PLDT and Digitel's fixed line businesses primarily to achieve operating efficiencies and to increase the level of quality of service for Digitel's subscribers.

### ***Decrease in Authorized Capital Stock***

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 387.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (2) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. The Certificate of Amendment and Amended Articles of Incorporation will be filed with the Philippine SEC in due course.

### ***Investment in PDRs of MediaQuest***

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV, Inc., or Cignal TV (formerly Mediascape, Inc.) Cignal TV is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 503 thousand net subscribers as at June 30, 2013.

On March 5, 2013, PLDT's Board of Directors approved two further investments in additional PDRs of MediaQuest:

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: *The Philippine Star*, the *Philippine Daily Inquirer*, and *Business World*.

In March to July 2013, ePLDT made various deposits aggregating to Php3.1 billion for its investment in Satventures PDRs of MediaQuest.

As at August 7, 2013, the MediaQuest PDRs have not been issued.

The PLDT Group's financial investment in PDRs of MediaQuest is part of the PLDT Group's overall strategy of broadening its distribution platforms and increasing the Group's ability to deliver multi-media content to its customers across the Group's broadband and mobile networks.

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

### ***Sale of BPO Segment***

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, SPi Global to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US\$40 million of the proceeds from the sale in Asia Outsourcing Beta Limited, resulting in an approximately 19.7% interest, and will continue to participate in the growth of the business as a partner of CVC. Upon the completion of the sale, PLDT will be subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT's business); and (2) an obligation, for a period of five years, to provide transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided). In addition, PLDT may be liable for certain damages actually suffered by AOGL arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a wholly-owned subsidiary of SPi. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations* and *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations* to the accompanying unaudited consolidated financial statements for a further discussion of the classification of the BPO segment as an asset held-for-sale.

### ***Related Party Transactions***

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



## ANNEX I – AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of our consolidated receivables as at June 30, 2013:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
	(in millions)				
Retail subscribers.....	Php11,631	Php2,279	Php1,057	Php419	Php7,876
Corporate subscribers.....	8,513	1,560	871	415	5,667
Foreign administrations .....	6,771	1,160	1,104	739	3,768
Domestic carriers .....	1,341	410	152	148	631
Dealers, agents and others .....	3,334	2,114	128	308	784
Total	31,590	Php7,523	Php3,312	Php2,029	Php18,726
Less: Allowance for doubtful accounts .....	14,356				
Total Receivables - net.....	Php17,234				



## ANNEX II – FINANCIAL SOUNDNESS INDICATORS

The following table shows our financial soundness indicators as at June 30, 2013 and 2012:

	2013	2012
Current Ratio <sup>(1)</sup>	0.58:1.0	0.61:1.0
Net Debt to Equity Ratio <sup>(2)</sup>	0.52:1.0	0.56:1.0
Net Debt to EBITDA Ratio <sup>(3)</sup>	0.97:1.0	1.09:1.0
Asset to Equity Ratio <sup>(4)</sup>	2.75:1.0	2.63:1.0
Interest Coverage Ratio <sup>(5)</sup>	6.60:1.0	6.67:1.0
Profit Margin <sup>(6)</sup>	24%	24%
Return on Assets <sup>(7)</sup>	9%	8%
Return on Equity <sup>(8)</sup>	25%	20%
EBITDA Margin <sup>(9)</sup>	49%	48%

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

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

(3) Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.

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

(5) Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the 12 months average period, divided by total financing cost for the 12 months average period.

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

(7) Return on assets is measured as 12 months average net income for the period divided by average total assets.

(8) Return on Equity is measured as 12 months average net income for the period divided by average total equity.

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

EBITDA for the period is measured as net income for the period excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) for the period.

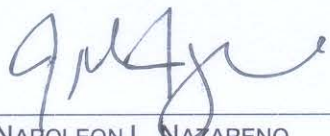


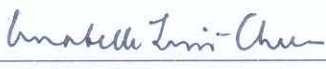
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## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first half of 2013 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

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

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

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

Date: August 7, 2013