

SEC Number
File Number

PW-55

**PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY**

(Company's Full Name)

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

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2010

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 3, 2010

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, 2010.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY


MA. LOURDES C. RAUSA-CHAN
Corporate Secretary



COVER SHEET

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

P H I L I P P I N E L O N G D I S T A N C E

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

R A M O N C O J U A N G C O B L D G .

M A K A T I A V E . M A K A T I C I T Y
(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0 6 Every 2nd
Month Day Tuesday
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

2,183,041
As of June 30, 2010
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.

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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, 2010
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
Address of registrant's principal office 0721
Postal Code
8. (632) 816-8556
Registrant's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

Common Capital Stock, Php5 par value 186,797,502 shares as at June 30, 2010

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, 2010 (unaudited) and December 31, 2009 (audited) and for the six months ended June 30, 2010 and 2009 (unaudited) and related notes (pages F-1 to F-116) 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 of the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

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 have certain differences from International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differ in certain significant respects from generally accepted accounting principles 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 Php46.42 to US\$1.00, the volume weighted average exchange rate on June 30, 2010 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 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

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



Financial Highlights and Key Performance Indicators

(in millions, except for earnings per common share, operational data and exchange rates)	June 30,	December 31,	Decrease	
	2010 (Unaudited)	2009 (Audited)	Amount	%
Consolidated Statements of Financial Position				
Total assets	Php264,316	Php280,148	(Php15,832)	(6)
Property, plant and equipment – net	157,767	161,256	(3,489)	(2)
Cash and cash equivalents and short-term investments	29,576	42,143	(12,567)	(30)
Total equity attributable to equity holders of PLDT	93,958	98,575	(4,617)	(5)
Notes payable and long-term debt	93,356	98,729	(5,373)	(5)
Net debt ⁽¹⁾ to equity ratio	0.68x	0.57x	–	–
	Six Months Ended June 30,		Change	
	2010 (Unaudited)	2009	Amount	%
Consolidated Income Statements				
Revenues	Php73,207	Php74,078	(Php871)	(1)
Expenses	43,301	43,318	(17)	–
Other expenses	(529)	(3,489)	2,960	(85)
Income before income tax	29,377	27,271	2,106	8
Net income for the period	21,621	20,271	1,350	7
Net income attributable to equity holders of PLDT				
Reported net income	21,679	19,720	1,959	10
Core income ⁽²⁾	21,230	20,838	392	2
EBITDA ⁽³⁾	43,257	44,080	(823)	(2)
EBITDA margin ⁽⁴⁾	60%	60%	–	–
Reported earnings per common share				
Basic	114.84	104.22	10.62	10
Diluted	114.77	104.20	10.57	10
Core earnings per common share				
Basic	112.43	110.20	2.23	2
Diluted	112.39	110.12	2.27	2
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	31,848	34,348	(2,500)	(7)
Net cash used in investing activities	5,773	5,484	289	5
Capital expenditures	9,700	10,666	(966)	(9)
Net cash used in financing activities	35,595	21,091	14,504	69
Operational Data				
Number of cellular subscribers	45,345,998	38,520,030	6,825,968	18
Number of fixed line subscribers	1,862,992	1,786,462	76,530	4
Number of broadband subscribers	1,964,588	1,224,380	740,208	60
Fixed Line	609,143	509,687	99,456	20
Wireless	1,355,445	714,693	640,752	90
Number of employees	29,717	29,177	540	2
Fixed Line	8,056	8,066	(10)	–
Wireless	5,405	5,455	(50)	(1)
Information and Communications Technology	16,256	15,656	600	4
Exchange Rates				
	Php per US\$			
June 30, 2010	46.42			
December 31, 2009	46.43			
June 30, 2009	48.16			
December 31, 2008	47.65			

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

(2) Core income for the period is measured as net income attributable to equity holders of PLDT, excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, excluding hedge cost, asset impairment on noncurrent assets, other nonrecurring 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.

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

(4) EBITDA margin is derived as a percentage of service revenues.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main business segments:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, PLDT Communication and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel, whereas on August 17, 2009, Smart acquired the cellular business of Piltel) and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, Blue Ocean Wireless, or BOW, Airborne Access Corporation, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group, our wireless content operators; Mabuhay Satellite Corporation, or Mabuhay Satellite, and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operators;
- *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. (formerly known as Philcom Corporation), or Philcom, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and
- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc., BayanTrade; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction solutions provided by ePLDT Ventus, Inc., or Ventus (on April 8, 2010, Ventus, Parlance Systems, Inc. and Vocativ Systems, Inc. were merged wherein Ventus became the surviving entity); internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., netGames, Inc. and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* of the accompanying unaudited consolidated financial statements.

We registered consolidated revenues of Php73,207 million in the first half of 2010, a decrease of Php871 million, or 1%, as compared with Php74,078 million in the same period in 2009, primarily due to a decline in our service revenues by Php715 million mainly from our wireless business, as a result of lower cellular and satellite service revenues, as well as lower revenues from our national and international long distance services of our fixed line business.

Consolidated expenses decreased by Php17 million to Php43,301 million in the first half of 2010 from Php43,318 million in the same period in 2009, largely resulting from decreases in compensation and employee benefits, cost of sales, selling and promotions, insurance and security services, depreciation and amortization, and taxes and licenses partly offset by higher asset impairment, repairs and maintenance, professional and other contracted services, and rent expenses.

Consolidated other expenses – net in the first half of 2010 amounted to Php529 million, a decrease of Php2,960 million, or 85%, from Php3,489 million in the same period in 2009 primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php934 million in the first half of 2010 as against net losses of Php1,631 million in the first half of 2009 due to the mark-to-market valuation of principal only currency swaps; (ii) equity share in net earnings of associates and joint ventures of Php881 million in the first half of 2010 as against equity share in net losses of Php65 million in the same period in 2009 mainly due to the share in net earnings of Manila Electric Company, or Meralco (Meralco shares were acquired by PCEV on July 14, 2009, of which 154.2 million shares was transferred to Beacon Electric Asset Holdings, Inc., or Beacon, where PCEV has acquired 50% equity interest effective March 31, 2010); (iii) lower interest income by Php288 million due to lower level of short-term investments and lower level of average interest rate on money market placements and special deposits; (iv) lower net foreign exchange losses by Php233 million in the first half of 2010 as compared with the same period in 2009 due to the revaluation of foreign currency-denominated assets and liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; and (v) an increase in net financing costs by Php334 million mainly due to higher interest on loans and other related items – net, on account of PLDT's and Smart's higher level of average loan balances and lower capitalized interest.

Consolidated net income increased by Php1,350 million, or 7%, to Php21,621 million in the first half of 2010 from Php20,271 million in the same period in 2009. The increase was mainly due to the combined effects of the following: (i) a decrease in other expenses – net by Php2,960 million; (ii) a decrease in consolidated expenses by Php17 million; (iii) a decrease in consolidated revenues by Php871 million; and (iv) an increase in the consolidated provision for income tax by Php756 million due to higher taxable income of our fixed line and ICT businesses. Consolidated net income attributable to equity holders of PLDT increased by Php1,959 million, or 10%, to Php21,679 million in the first half of 2010 from Php19,720 million in the same period in 2009. The increase in our consolidated net income attributable to equity holders of PLDT is higher compared with the increase in our consolidated net income mainly due to the favorable effect of Smart's acquisition of equity interest from PCEV's non-controlling shareholders in 2009. Consolidated core income increased by Php392 million, or 2%, to Php21,230 million in the first half of 2010 from Php20,838 million in the same period in 2009. Our consolidated reported basic and diluted earnings per common share increased to Php114.84 and Php114.77, respectively, in the first half of 2010 from Php104.22 and Php104.20 for our consolidated reported basic and diluted earnings per common share, respectively, in the same period in 2009. The increase in consolidated reported basic and diluted earnings per share of Php10.62, or 10%, and Php10.57, or 10%, respectively, was due to a 10% increase in our reported net income attributable to equity holders of PLDT. Likewise, our consolidated core basic and diluted earnings per common share increased to Php112.43 and Php112.39, respectively, in the first half of 2010 from Php110.20 and Php110.12 for our consolidated core basic and diluted earnings per common share, respectively, in the same period in 2009. Our weighted average number of common shares is approximately 187 million in each of the six months ended June 30, 2010 and 2009.



Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses) and net income for the six months ended June 30, 2010 and 2009. The majority of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total				
	(in millions)								
For the six months ended June 30, 2010 (Unaudited)									
Revenues	Php48,621	Php25,417	Php5,497	(Php6,328)	Php73,207				
Expenses	25,758	18,723	5,277	(6,457)	43,301				
Other income (expenses)	(46)	(420)	66	(129)	(529)				
Income before income tax	22,817	6,274	286	–	29,377				
Net income for the period	16,766	4,550	305	–	21,621				
Net income attributable to equity holders of PLDT:									
Reported net income	16,822	4,544	313	–	21,679				
Core income	17,133	3,753	344	–	21,230				
EBITDA	29,704	12,668	756	129	43,257				
EBITDA margin	62%	50%	14%	–	60%				
For the six months ended June 30, 2009 (Unaudited)									
Revenues	48,972	25,548	5,453	(5,895)	74,078				
Expenses	25,350	18,496	5,447	(5,975)	43,318				
Other income (expenses)	(322)	(3,125)	38	(80)	(3,489)				
Income before income tax	23,300	3,927	44	–	27,271				
Net income for the period	17,437	2,832	2	–	20,271				
Net income attributable to equity holders of PLDT:									
Reported net income	16,887	2,828	5	–	19,720				
Core income	16,939	3,913	(14)	–	20,838				
EBITDA	30,209	13,279	512	80	44,080				
EBITDA margin	63%	52%	10%	–	60%				
Increase (Decrease)									
	Amount	%	Amount	%	Amount	%	Amount	Amount	%
Revenues	(Php351)	(1)	(Php131)	(1)	Php44	1	(Php433)	(Php871)	(1)
Expenses	408	2	227	1	(170)	(3)	(482)	(17)	–
Other income (expenses)	276	(86)	2,705	(87)	28	74	(49)	2,960	(85)
Income before income tax	(483)	(2)	2,347	60	242	550	–	2,106	8
Net income for the period	(671)	(4)	1,718	61	303	15,150	–	1,350	7
Net income attributable to equity holders of PLDT:									
Reported net income	(65)	–	1,716	61	308	6,160	–	1,959	10
Core income	194	1	(160)	(4)	358	2,557	–	392	2
EBITDA	(505)	(2)	(611)	(5)	244	48	49	(823)	(2)

Wireless

Revenues

Revenues generated from our wireless business amounted to Php48,621 million in the first half of 2010, a decrease of Php351 million, or 1%, from Php48,972 million in the same period in 2009. The following table summarizes our total revenues from our wireless business for the six months ended June 30, 2010 and 2009 by service segment:

	2010	%	2009 (in millions)	%	Increase (Decrease)	
					Amount	%
Wireless Services:						
Service Revenues:						
Cellular	Php44,076	90	Php44,610	91	(Php534)	(1)
Wireless broadband, satellite and others						
Wireless broadband	3,203	7	2,518	5	685	27
Satellite and others	597	1	948	2	(351)	(37)
	47,876	98	48,076	98	(200)	-
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	745	2	896	2	(151)	(17)
Total Wireless Revenues	Php48,621	100	Php48,972	100	(Php351)	(1)

Service Revenues

Our wireless service revenues decreased by Php200 million to Php47,876 million in the first half of 2010 as compared with Php48,076 million in the same period in 2009, mainly as a result of lower revenues from our cellular services, largely from text messaging services. In particular, revenues from domestic and international text messaging services declined due to the increase in multiple SIM card holders, intense competition, the continued decline in SMS yield as a result of aggressive SMS offers, load validity extensions and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009, partially offset by an increase in voice revenues due to the introduction of new unlimited voice offers in the second half of 2009. Since the growth in our cellular subscriber base was mainly due to the increase in multiple SIM card ownership especially in the lower income segment of the Philippine wireless market, average monthly cellular ARPU's for the first half of 2010 were lower as compared with the same period in 2009. Due to the popularity of unlimited voice offers and competitive pressure, we expect this trend to continue. As a percentage of our total wireless revenues, service revenues contributed 98% in both the first half of 2010 and 2009.

Cellular Service

Our cellular service revenues in the first half of 2010 amounted to Php44,076 million, a decrease of Php534 million, or 1%, from Php44,610 million in the same period in 2009. Cellular service revenues accounted for 92% of our wireless service revenues in the first half of 2010 as compared with 93% in the same period in 2009.



The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the six months ended June 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
	(in millions)			
Cellular service revenues	Php44,076	Php44,610	(Php534)	(1)
<i>By service type</i>				
Prepaid	42,771	43,310	(539)	(1)
Postpaid	39,371	40,073	(702)	(2)
	3,400	3,237	163	5
<i>By component</i>				
Voice	42,771	43,310	(539)	(1)
Data	21,841	19,064	2,777	15
	20,930	24,246	(3,316)	(14)
<i>Others⁽¹⁾</i>	1,305	1,300	5	–

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

	2010	2009	Increase (Decrease)	
			Amount	%
Cellular subscriber base	45,345,998	38,520,030	6,825,968	18
Prepaid	44,906,154	38,094,820	6,811,334	18
<i>Smart Buddy</i>	25,764,292	21,444,934	4,319,358	20
<i>Talk 'N Text⁽¹⁾</i>	18,008,072	16,584,562	1,423,510	9
<i>Red Mobile</i>	1,133,790	65,324	1,068,466	1,636
Postpaid	439,844	425,210	14,634	3
Systemwide traffic volumes (in millions)				
Calls (in minutes)	12,249	4,288	7,961	186
Domestic – outbound	10,713	2,826	7,887	279
International	1,536	1,462	74	5
<i>Inbound</i>	1,430	1,363	67	5
<i>Outbound</i>	106	99	7	7
SMS/Data count (in hits)	175,624	138,762	36,862	27
Text messages	174,877	137,917	36,960	27
Domestic	174,720	137,764	36,956	27
<i>Bucket-Priced</i>	165,498	128,157	37,341	29
<i>Standard</i>	9,222	9,607	(385)	(4)
International	157	153	4	3
Value-Added Services	736	836	(100)	(12)
Financial Services	11	9	2	22

⁽¹⁾ The transfer of PCEV's cellular business to Smart was completed on August 17, 2009.

Revenues attributable to our cellular prepaid service amounted to Php39,371 million in the first half of 2010, a decrease of Php702 million, or 2%, as compared with Php40,073 million earned in the same period in 2009. Prepaid cellular service revenues accounted for 92% and 93% of cellular voice and data revenues in the first half of 2010 and 2009, respectively. Revenues attributable to Smart's postpaid cellular service amounted to Php3,400 million in the first half of 2010, an increase of Php163 million, or 5%, over the Php3,237 million earned in the same period in 2009, and accounted for 8% and 7% of cellular voice and data revenues in the first half of 2010 and 2009, respectively.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php2,777 million, or 15%, to Php21,841 million in the first half of 2010 from Php19,064 million in the same period in 2009 primarily due to increased domestic outbound call revenues resulting from the introduction of new unlimited voice offers in the second half of 2009 and the growth in inbound international call volumes, partially offset by the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009. Cellular voice services accounted for 50% of our cellular service revenues in the first half of 2010 as compared with 43% in the same period in 2009.

Domestic outbound calls totaled 10,713 million minutes in the first half of 2010, an increase of 7,887 million minutes, or 279%, as compared with 2,826 million minutes in the same period in 2009 mainly due to the increase in call volumes resulting from unlimited voice offerings. International inbound and outbound calls totaled 1,536 million minutes in the first half of 2010, an increase of 74 million minutes, or 5%, as compared with 1,462 million minutes in the same period in 2009, mainly due to an increase in cellular subscriber base.

On June 26, 2009, *Smartalk*, Smart's unlimited voice offering, was made available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart network. Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in two denominations: "*Smartalk 100*" which offers five days of unlimited calls for Php100 and "*Smartalk 500*" which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

Buoyed by the widespread acceptance of the service, Smart launched a variant in October 2009, the *Smartalk Plus*, which offers unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus*' Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:01 p.m. to 5:00 p.m., and call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 10:00 p.m.

On April 18, 2010, *Talk 'N Text UnliTalk Plus 100* was launched to offer *Talk 'N Text* subscribers unlimited off-peak calls from 10:00 p.m. to 5:00 p.m. and special peak hour rates of Php2.50 per minute from 5:01 p.m. to 9:59 p.m. to any *Smart Buddy*, Smart Postpaid and *Talk 'N Text* subscribers. The package also includes all day unlimited texting to any *Smart Buddy*, Smart Postpaid and *Talk 'N Text* subscribers. Each registration to this promo is valid for five days.

Red Mobile subscriber calls to other *Red Mobile* subscribers are charged at Php0.50 per minute while calls by *Red Mobile* subscribers to *Smart Buddy*, *Talk 'N Text* and other networks' subscribers are charged Php6.50 per minute. On March 5, 2010, *Red Mobile* introduced its unlimited voice and SMS offer which utilizes a secondary prepaid network powered by Smart. *Red Mobile Unlimited* offers unlimited Red-to-Red call and text in three denominations: Php25 valid for one day with 60 free texts to all networks, Php125 valid for seven days with 300 free texts to all networks and Php500 valid for 30 days with 1,000 free texts to all networks. On July 8, 2010, two new unlimited text packages were introduced, both with unlimited *Red-to-Red* texting: (1) Php30 valid for three days with 20 minutes voice and 10 free texts to all networks; and (2) Php50 valid for seven days with 60 minutes *Red-to-Red* calls. On July 17, 2010, unlimited calling and texting to all Smart subscribers were made available to *Red Mobile* subscribers through *Unli30*, a Php30 call and text load variant valid for one day.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php3,316 million, or 14%, to Php20,930 million in the first half of 2010 from Php24,246 million in the same period in 2009. Cellular data services accounted for 47% and 54% of our cellular service revenues in the first half of 2010 and 2009, respectively.

The following table shows the breakdown of our cellular data revenues for the six months ended June 30, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php19,006	Php22,203	(Php3,197)	(14)
<i>Bucket-Priced</i>	11,815	13,850	(2,035)	(15)
<i>Standard</i>	7,191	8,353	(1,162)	(14)
International	676	791	(115)	(15)
	<u>19,682</u>	<u>22,994</u>	<u>(3,312)</u>	<u>(14)</u>
Value-added services				
Standard ⁽¹⁾	532	525	7	1
Rich Media ⁽²⁾	498	500	(2)	-
<i>Pasa Load</i> ⁽³⁾	200	213	(13)	(6)
	<u>1,230</u>	<u>1,238</u>	<u>(8)</u>	<u>(1)</u>
Financial services				
<i>Smart Money</i>	15	12	3	25
Mobile Banking	3	2	1	50
	<u>18</u>	<u>14</u>	<u>4</u>	<u>29</u>
Total	<u>Php20,930</u>	<u>Php24,246</u>	<u>(Php3,316)</u>	<u>(14)</u>

⁽¹⁾ Includes standard services such as info-on-demand, ringtone and logo downloads, etc.

⁽²⁾ Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.

⁽³⁾ A service which allows prepaid subscribers to transfer small denominations of air time credits to other prepaid subscribers.

Text messaging-related services contributed revenues of Php19,682 million in the first half of 2010, a decrease of Php3,312 million, or 14%, as compared with Php22,994 million in the same period in 2009, and accounted for 94% and 95% of our total cellular data revenues in the first half of 2010 and 2009, respectively. The decrease in revenues from text messaging-related services resulted mainly from the increase in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS, intense competition, the continued decline in SMS yield as a result of aggressive SMS offers, load validity extensions and cheaper alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php11,815 million in the first half of 2010, a decrease of Php2,035 million, or 15%, as compared with Php13,850 million in the same period in 2009. Likewise, standard text messaging revenues decreased by Php1,162 million, or 14%, to Php7,191 million in the first half of 2010 from Php8,353 million in the same period in 2009. The decrease in international text messaging revenues was mainly due to the higher average/effective rate of roaming costs in the first half of 2010.

Bucket-priced text messages in the first half of 2010 totaled 165,498 million, an increase of 37,341 million, or 29%, as compared with 128,157 million in the same period in 2009 primarily due to the continued patronage of bucket and unlimited text messaging offers. Standard text messages totaled 9,222 million in the first half of 2010, a decrease of 385 million, or 4%, as compared with 9,607 million in the same period in 2009 as a result of lower usage owing to a shift to bucket-priced text services.

VAS, which contributed revenues of Php1,230 million in the first half of 2010, decreased by Php8 million, or 1%, as compared with Php1,238 million in the same period in 2009 primarily due to lower usage of *Pasa Load* owing to the continued patronage of low-denomination top-ups, partially

offset by higher usage of standard VAS.

Subscriber Base, ARPU and Churn Rates

In the first half of 2010, Smart (including PCEV's *Talk 'N Text* subscribers which were transferred to Smart on August 17, 2009) and CURE cellular subscribers totaled 45,345,998, an increase of 6,825,968, or 18%, over their combined cellular subscriber base of 38,520,030 in the same period in 2009. Our cellular prepaid subscriber base grew by 18% to 44,906,154 in the first half of 2010 from 38,094,820 in the same period in 2009, while our cellular postpaid subscriber base increased by 14,634, or 3%, to 439,844 in the first half of 2010 from 425,210 in the same period in 2009. Prepaid subscribers accounted for 99% of our total subscriber base in each of the first half of 2010 and 2009. Prepaid and postpaid subscribers reflected net activations of 4,013,056 and 4,301, respectively, in the first half of 2010 and 3,268,352 and 27,074, respectively, in the same period in 2009.

Our net subscriber activations for the six months ended June 30, 2010 and 2009 were as follows:

	2010	2009	Increase (Decrease)	
			Amount	%
Prepaid	4,013,056	3,268,352	744,704	23
<i>Smart Buddy</i>	2,001,478	943,317	1,058,161	112
<i>Talk 'N Text</i> ⁽¹⁾	957,359	2,276,069	(1,318,710)	(58)
<i>Red Mobile</i>	1,054,219	48,966	1,005,253	2,053
Postpaid	4,301	27,074	(22,773)	(84)
Total	4,017,357	3,295,426	721,931	22

⁽¹⁾ The transfer of PCEV's cellular business to Smart was completed on August 17, 2009.

For *Smart Buddy*, the average monthly churn rate in the first half of 2010 and 2009 was 4.4% and 4.3%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers was 5.3% and 4.3% in the first half of 2010 and 2009, respectively. The average monthly churn rate for *Red Mobile* subscribers was 2.6% in the first half of 2010.

The average monthly churn rate for Smart's postpaid subscribers is 1.7% for each of the first half of 2010 and 2009. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.



The following table summarizes our average monthly cellular ARPUs for the six months ended June 30, 2010 and 2009:

	Gross ⁽¹⁾		Decrease		Net ⁽²⁾		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Buddy	Php228	Php270	(Php42)	(16)	Php182	Php214	(Php32)	(15)
Talk 'N Text	140	172	(32)	(19)	116	141	(25)	(18)
Red Mobile	8	21	(13)	(62)	6	12	(6)	(50)
Prepaid – Blended ⁽³⁾	190	228	(38)	(17)	153	183	(30)	(16)
Postpaid – Smart	1,675	1,839	(164)	(9)	1,271	1,321	(50)	(4)
Prepaid and Postpaid Blended ⁽⁴⁾	205	246	(41)	(17)	164	195	(31)	(16)

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

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

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

⁽⁴⁾ The average monthly ARPU of all prepaid and postpaid cellular subscribers.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first half of 2010 was Php190, a decrease of 17%, as compared with Php228 in the same period in 2009. The decrease was primarily due to a decline in the average outbound domestic text messaging revenue per subscriber, as well as a drop in the average inbound international and domestic voice revenue per subscriber in the first half of 2010 as compared with the same period in 2009. On a net basis, prepaid blended average monthly ARPU in the first half of 2010 was Php153, a decrease of 16%, as compared with Php183 in the same period in 2009.

Gross average monthly ARPU for postpaid subscribers decreased by 9% to Php1,675 as net average monthly ARPU also decreased by 4% to Php1,271 in the first half of 2010 as compared with Php1,839 and Php1,321 in the same period in 2009, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php205 in the first half of 2010, a decrease of 17%, as compared with Php246 in the same period in 2009. Net average monthly prepaid and postpaid blended ARPU decreased by 16% to Php164 in the first half of 2010 from Php195 in the same period in 2009.

Our average monthly prepaid and postpaid ARPUs per quarter for the first two quarters of 2010 and four quarters of 2009 were as follows:

	Prepaid						Postpaid	
	Smart Buddy		Talk 'N Text		Red Mobile		Smart	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
2010								
First Quarter	Php232	Php184	Php140	Php115	Php11	Php8	Php1,686	Php1,286
Second Quarter	224	179	141	116	4	3	1,665	1,257
2009								
First Quarter	272	216	176	144	25	14	1,863	1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278
Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304

⁽¹⁾ Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.

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

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php685 million, or 27%, to Php3,203 million in the first half of 2010 from Php2,518 million in the same period in 2009 primarily due to the growth in wireless broadband subscribers.

SBI offers a number of wireless broadband services and had a total of 1,323,364 subscribers in the first half of 2010, an increase of 634,102 subscribers, or 92%, as compared with 689,262 subscribers in the same period in 2009. Our postpaid wireless broadband subscriber base grew by 27,683, or 6%, to 455,810 in the first half of 2010 from 428,127 in the same period in 2009, while our prepaid wireless broadband subscriber base increased by 606,419, or 232%, to 867,554 in the first half of 2010 from 261,135 in the same period in 2009.

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

We offer *SmartBro Plug-It*, which provides instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. On April 13, 2008, we launched *SmartBro Plug-It Prepaid*, which offers 30-minute internet access for every Php10 worth of load. On February 19, 2010, we offered *Unli Surf 200* for *Plug-It Prepaid* subscribers to enjoy unlimited surfing for five days for Php200.

In March 2009, we introduced *SmartBro Share-It*, which allows users to share their broadband access with other computers in a home network via a WiFi router. *SmartBro Share-It* runs on a High Speed Packet Access, or HSPA, 850 network ready for transfer capacities of up to 2 Mbps.

On February 28, 2010, we launched *SmartBro SurfTV*, a prepaid internet surfing service which comes with a small box device that connects to a television set to provide internet access using *SmartBro's* network coverage. A one-time charge for the *SmartBro SurfTV* kit, which includes a set top box with remote control, keyboard, mouse, *SmartBro Plug-It* modem and prepaid SIM, costs Php4,500. Internet access costs Php10 for every 30 minutes.

On May 24, 2009, Smart introduced *Sandbox*, the latest web platform from Smart which unites social networking, online media content downloading, as well as web services. Browsing on the portal is free of charge but downloading content is charged accordingly. Content is delivered straight to the subscriber's mobile and the cost for any requested music, game and video is automatically charged to the subscriber's prepaid load or added to the monthly service fee for postpaid subscribers.

On June 11, 2010, we launched *SmartBro WiMAX*, in Metro Manila. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient band use, interference avoidance and higher data rates over longer distances. *WiMAX* is initially being offered at Plan 999 for unlimited broadband usage with a burst speed of 1 Mbps.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php351 million, or 37%, to Php597 million in the first half of 2010 from Php948 million in the same period in 2009 primarily due to lower satellite transponder rental revenues due to the sale of transponders by Mabuhay Satellite and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues. Please see *Note 9 – Property, Plant and Equipment* to the accompanying unaudited consolidated financial statements for the discussion on *Wholesale Transponder Lease Agreement between Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III.*

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php151 million, or 17%, to Php745 million in the first half of 2010 as compared with Php896 million in the same period in 2009 primarily due to the lower combined average retail price of cellular phonekits and SIM-packs, partly offset by increased sales of broadband data modems.

Expenses

Expenses associated with our wireless business in the first half of 2010 amounted to Php25,758 million, an increase of Php408 million, or 2%, from Php25,350 million in the same period in 2009. A significant portion of this increase was attributable to depreciation and amortization, professional and other contracted services, rent, and repairs and maintenance expenses, partially offset by lower expenses related to cost of sales, selling and promotions, and asset impairment. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 53% and 52% in the first half of 2010 and 2009, respectively.

Cellular business expenses accounted for 85% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 15% of our wireless business expenses in the first half of 2010 as compared with 86% and 14%, respectively, in the same period in 2009.

The following table summarizes the breakdown of our total wireless-related expenses for the six months ended June 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Wireless Services:						
Depreciation and amortization	Php6,781	26	Php6,520	26	Php261	4
Rent	5,439	21	5,234	21	205	4
Compensation and employee benefits ⁽¹⁾	3,210	12	3,176	13	34	1
Repairs and maintenance	2,450	10	2,277	9	173	8
Selling and promotions	1,940	8	2,084	8	(144)	(7)
Cost of sales	1,919	7	2,120	8	(201)	(9)
Professional and other contracted services	1,467	6	1,245	5	222	18
Taxes and licenses	901	4	857	3	44	5
Communication, training and travel	462	2	471	2	(9)	(2)
Asset impairment	346	1	446	2	(100)	(22)
Insurance and security services	344	1	375	1	(31)	(8)
Amortization of intangible assets	47	–	67	–	(20)	(30)
Other expenses	452	2	478	2	(26)	(5)
Total	Php25,758	100	Php25,350	100	Php408	2

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

Depreciation and amortization charges increased by Php261 million, or 4%, to Php6,781 million in the first half of 2010 principally due to increased depreciation on the growing asset base of 3G and 2G networks, partly offset by a decrease in the depreciable asset base of our broadband network.

Rent expenses increased by Php205 million, or 4%, to Php5,439 million on account of an increase in domestic circuits leased by Smart from PLDT as well as higher site rental expenses. In the first half of 2010, we had 5,643 cell sites, 9,727 cellular/mobile broadband base stations and 2,019 fixed wireless broadband-enabled base stations, as compared with 5,433 cell sites, 8,742 cellular/mobile broadband base stations and 1,999 fixed wireless broadband-enabled base stations in the same period in 2009.

Compensation and employee benefits expenses increased by Php34 million, or 1%, to Php3,210 million primarily due to higher salaries and employee benefits as a result of merit-based increases and higher employee headcount of Smart and subsidiaries to 5,405 in the first half of 2010 as compared with 5,401 in the same period in 2009, as well as higher MRP costs, partially offset by decreased provision for LTIP and pension benefits. For further discussion of our LTIP, please see *Note 25 – Share-based Payments and Employee Benefits* of the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php173 million, or 8%, to Php2,450 million mainly due to an increase in cellular network and software maintenance expenses and higher fuel costs for power generation, partly offset by lower broadband facilities and computer hardware maintenance costs.

Selling and promotion expenses decreased by Php144 million, or 7%, to Php1,940 million primarily due to lower spending on advertising and promotional campaigns.

Cost of sales decreased by Php201 million, or 9%, to Php1,919 million primarily due to the lower combined average cost of cellular phonekits and SIM-packs and lower average cost of retention packages, partly offset by higher sales volume of broadband data modems.

Professional and other contracted service fees increased by Php222 million, or 18%, to Php1,467 million primarily due to the increase in consultancy fees, customer interaction solutions service fees, management fees and other professional fees, partly offset by lower contracted service fees.

Taxes and licenses increased by Php44 million, or 5%, to Php901 million primarily due to higher business-related taxes and license fees.

Communication, training and travel expenses decreased by Php9 million, or 2%, to Php462 million primarily due to lower travel, training and communication expenses incurred in the first half of 2010.

Asset impairment decreased by Php100 million, or 22%, to Php346 million mainly due to lower provision for uncollectible subscriber receivables and provision for obsolescence of slow-moving network inventory.

Insurance and security services decreased by Php31 million, or 8%, to Php344 million primarily due to lower insurance and bond premiums.

Amortization of intangible assets decreased by Php20 million, or 30%, to Php47 million primarily due to the full amortization of the technology application intangible asset relating to SBI as at August 2009.

Other expenses decreased by Php26 million, or 5%, to Php452 million primarily due to lower various business and operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the six months ended June 30, 2010 and 2009:

	2010	2009	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings (losses) of associates	Php784	(Php70)	Php854	1,220
Interest income	354	665	(311)	(47)
Losses on derivative financial instruments – net	(1)	(11)	10	(91)
Foreign exchange losses – net	(105)	(64)	(41)	64
Financing costs – net	(1,344)	(1,203)	(141)	12
Others	266	361	(95)	(26)
Total	(Php46)	(Php322)	Php276	(86)

Our wireless business segment's other expenses – net amounted to Php46 million in the first half of 2010, a decrease of Php276 million, or 86%, from Php322 million in the same period in 2009 primarily due to the combined effects of the following: (1) equity share in net earnings of associates of Php784 million in the first half of 2010 as against equity share in net losses of associates of Php70 million in the same period in 2009 mainly due to the share in net earnings of Meralco and Beacon (Meralco shares were acquired by PCEV on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV has acquired 50% equity interest effective March 31, 2010); (2) net increase in foreign exchange losses by Php41 million on account of a higher loss on foreign exchange revaluation of foreign currency-denominated assets and liabilities and increase in capitalized foreign exchange gains; (3) higher net financing costs by Php141 million primarily due to higher interest on loans and other related items on account of Smart's higher average loan balances and increase in accretion of financial liabilities; (4) decrease in interest income by Php311 million mainly due to Smart's lower average level of short-term investments and lower level of average interest rate; and (5) decrease in other income by Php95 million mainly due to the project costs recovery recognized last year.

Provision for Income Tax

Provision for income tax increased by Php188 million, or 3%, to Php6,051 million in the first half of 2010 from Php5,863 million in the same period in 2009 due to higher taxable income. In the first half of 2010, the effective tax rate for our wireless business was 27% as compared with 25% in the same period in 2009. Smart and certain of its subsidiaries opted to use the optional standard deduction method in computing their taxable income in the first half of 2010 and 2009.

Net Income

Our wireless business segment recorded a net income of Php16,766 million in the first half of 2010, a decrease of Php671 million, or 4%, from Php17,437 million recorded in the same period in 2009 on account of an increase in wireless-related expenses by Php408 million, a decrease in wireless revenues by Php351 million and higher provision for income tax by Php188 million, partially offset by a decrease in other expenses – net by Php276 million. Our wireless business segment's net income attributable to equity holders decreased by Php65 million to Php16,822 million in the first half of 2010 from Php16,887 million in the same period in 2009 mainly due to a decrease in net income partially offset by the favorable effect of Smart's acquisition of equity interest from PCEV's non-controlling

shareholders in 2009. Our wireless business segment's core income increased by Php194 million, or 1%, to Php17,133 million in the first half of 2010 from Php16,939 million in the same period in 2009.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php25,417 million in the first half of 2010, a decrease of Php131 million, or 1%, from Php25,548 million in the same period in 2009. The following table summarizes our total revenues from our fixed line business for the six months ended June 30, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php7,764	31	Php7,845	31	(Php81)	(1)
International long distance	2,690	11	3,196	12	(506)	(16)
National long distance	2,351	9	3,186	12	(835)	(26)
Data and other network	11,578	45	10,468	41	1,110	11
Miscellaneous	854	3	722	3	132	18
	25,237	99	25,417	99	(180)	(1)
Non-Service Revenues:						
Sale of computers	180	1	131	1	49	37
Total Fixed Line Revenues	Php25,417	100	Php25,548	100	(Php131)	(1)

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php180 million, or 1%, to Php25,237 million in the first half of 2010 from Php25,417 million in the same period in 2009 due to decreases in revenues from our national long distance, international long distance and local exchange services, partially offset by the increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and i-Gate services, and miscellaneous 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, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php7,764	Php7,845	(Php81)	(1)
Number of fixed line subscribers	1,862,992	1,786,462	76,530	4
Postpaid	1,716,684	1,559,465	157,219	10
Prepaid	146,308	226,997	(80,689)	(36)
Number of fixed line employees	8,056	8,066	(10)	-
Number of fixed line subscribers per employee	231	221	10	5

Revenues from our local exchange service decreased by Php81 million, or 1%, to Php7,764 million in the first half of 2010 from Php7,845 million in the same period in 2009 primarily owing to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and lower installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLDT Landline Plus*, or PLP. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 31% in each of the first half of 2010 and

2009.

PLDT offers PLP, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone which can be brought around the area where it was applied for. The monthly service fee is at Php600 with free 600 local minutes and Php1,000 with free 1,000 local minutes for residential and business subscribers, respectively. In March 2008, we introduced the prepaid variant of PLP. As at June 30, 2010, there were a total of 293,178 active PLP subscribers, of which 250,471 and 42,707 were postpaid and prepaid subscribers, respectively, whereas there were a total of 155,832 active PLP subscribers as at June 30, 2009, of which 81,114 and 74,718 were postpaid and prepaid subscribers, 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, 2010 and 2009:

	2010	2009	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php2,690	Php3,196	(Php506)	(16)
Inbound	2,239	2,619	(380)	(15)
Outbound	451	577	(126)	(22)
International call volumes (in million minutes, except call ratio)	921	927	(6)	(1)
Inbound	815	820	(5)	(1)
Outbound	106	107	(1)	(1)
Inbound-outbound call ratio	7.7:1	7.7:1	-	-

Our total international long distance service revenues decreased by Php506 million, or 16%, to Php2,690 million in the first half of 2010 from Php3,196 million in the same period in 2009 primarily due to a decrease in the average collection and settlement rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009 and a decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 11% in the first half of 2010 from 13% in the same period in 2009.

Our revenues from inbound international long distance service decreased by Php380 million, or 15%, to Php2,239 million in the first half of 2010 from Php2,619 million in the same period in 2009 due to the decrease in the settlement rate and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars, as well as a decline in inbound call volumes.

Our revenues from outbound international long distance service decreased by Php126 million, or 22%, to Php451 million in the first half of 2010 from Php577 million in the same period in 2009 primarily due to the decline in outbound international call volumes, lower average collection rate in dollar terms and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009, resulting in a decrease in the average billing rates to Php45.79 in the first half of 2010 from Php47.85 in the same period in 2009.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the six months ended June 30, 2010 and 2009:

	2010	2009	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php2,351	Php3,186	(Php835)	(26)
National long distance call volumes (in million minutes)	679	1,003	(324)	(32)

Our national long distance service revenues decreased by Php835 million, or 26%, to Php2,351 million in the first half of 2010 from Php3,186 million in the same period in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 9% in the first half of 2010 from 12% in the same period in 2009.

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, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php11,578	Php10,468	Php1,110	11
Domestic	8,634	7,896	738	9
Broadband	4,150	3,408	742	22
DSL	4,036	3,294	742	23
WeRoam	114	114	-	-
Leased Lines and Others	4,484	4,488	(4)	-
International	2,944	2,572	372	14
Leased Lines and Others	2,944	2,572	372	14
Subscriber base:				
Broadband	627,331	526,228	101,103	19
DSL	609,143	509,687	99,456	20
WeRoam	18,188	16,541	1,647	10

In the first half of 2010, our data and other network services posted revenues of Php11,578 million, an increase of Php1,110 million, or 11%, as compared with Php10,468 million in the same period in 2009 primarily due to increases in domestic data revenues, particularly broadband services owing to higher revenues from *PLDT DSL*, and IP-based data services, particularly Internet Protocol Virtual Private Network, or IP-VPN, as well as an increase in international data revenues, particularly from i-Gate, partially offset by decreases in leased line revenues mainly due to lower revenues from Diginet. The percentage contribution of this service segment to our fixed line service revenues increased to 46% in the first half of 2010 from 41% in the same period in 2009.

Domestic

Domestic data services contributed Php8,634 million in the first half of 2010, an increase of Php738 million, or 9%, as compared with Php7,896 million in the same period in 2009. Growth was driven mainly by the continued increase in DSL, IP-VPN and Metro Ethernet subscribers as demand for offshoring and outsourcing services continue to increase. The percentage contribution of domestic data

service revenues to total data and other network services accounted for 75% in each of the first half of 2010 and 2009.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php4,150 million in the first half of 2010, an increase of Php742 million, or 22%, from Php3,408 million in the same period in 2009 primarily due to the higher revenue contribution of DSL which contributed revenues of Php4,036 million in the first half of 2010 from Php3,294 million in the same period in 2009 owing to the increase in the number of subscribers, partially offset by lower ARPU as a result of launching of lower-priced promotional plans. DSL revenues accounted for 35% and 31% of total data and other network service revenues in the first half of 2010 and 2009, respectively. DSL subscribers increased by 20% to 609,143 subscribers in the first half of 2010 from 509,687 subscribers in the same period in 2009. *WeRoam* revenues remained flat at Php114 million in each of the first half of 2010 and 2009 while subscribers increased by 10%, to 18,188 subscribers in the first half of 2010 from 16,541 subscribers in the same period in 2009.

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) *Shops.Work Unplugged* or, *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. Leased lines and other data revenues amounted to Php4,484 million in the first half of 2010, a decrease of Php4 million from Php4,488 million in the same period in 2009 primarily due to a decrease in Diginet revenues partially offset by higher revenues from IP-VPN and Metro Ethernet. The percentage contribution of leased lines and other data service revenues to total data and other network services accounted for 39% and 43% in the first half of 2010 and 2009, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable 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 data services in partnership with other Global Service Providers, such as BT-Infonet, NTT Arcstar, Orange Business, SingTel, Verizon Business, AT&T and Telstra, which provide data networking services to multinational companies. International data service revenues increased by Php372 million, or 14%, to Php2,944 million in the first half of 2010 from Php2,572 million in the same period in 2009 primarily due to an increase in i-Gate revenues as a result of Smart's higher usage and monthly recurring charges. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 25% in each of the first half of 2010 and 2009.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first half of 2010, these service revenues increased by Php132 million, or 18%, to Php854 million from Php722 million in the same period in 2009 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first half of 2010 and 2009.

Non-service Revenues

Non-service revenues increased by Php49 million, or 37%, to Php180 million in the first half of 2010 from Php131 million in the same period in 2009 primarily due to higher sales of PLP units and SIM cards.

Expenses

Expenses related to our fixed line business totaled Php18,723 million in the first half of 2010, an increase of Php227 million, or 1%, as compared with Php18,496 million in the same period in 2009. The increase was primarily due to higher professional and other contracted services, asset impairment and repairs and maintenance expenses, partly offset by decreases in depreciation and amortization, rent, compensation and employee benefits, and taxes and licenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 74% and 72% in the first half of 2010 and 2009, respectively.

The following table shows the breakdown of our total fixed line-related expenses for the six months ended June 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Fixed Line Services:						
Depreciation and amortization	Php5,896	31	Php6,227	33	(Php331)	(5)
Compensation and employee benefits ⁽¹⁾	5,020	27	5,142	28	(122)	(2)
Repairs and maintenance	2,152	12	2,008	11	144	7
Professional and other contracted services	1,490	8	1,070	6	420	39
Rent	1,306	7	1,430	8	(124)	(9)
Asset impairment	836	4	502	3	334	67
Selling and promotions	679	4	704	4	(25)	(4)
Taxes and licenses	351	2	454	2	(103)	(23)
Communication, training and travel	265	1	320	2	(55)	(17)
Insurance and security services	219	1	271	1	(52)	(19)
Cost of sales	186	1	134	1	52	39
Other expenses	323	2	234	1	89	38
Total	Php18,723	100	Php18,496	100	Php227	1

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

Depreciation and amortization charges decreased by Php331 million, or 5%, to Php5,896 million due to a lower depreciable asset base in the first half of 2010 as compared with the same period in 2009.

Compensation and employee benefits expenses decreased by Php122 million, or 2%, to Php5,020 million primarily due to lower provisions for pension costs and LTIP, partially offset by higher salaries and employee benefits due to collective bargaining agreement-related increases. For further discussion on our LTIP and pension benefits, please see *Note 25 – Share-based Payments and*

Employee Benefits of the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php144 million, or 7%, to Php2,152 million primarily due to higher electricity charges, domestic cable and wire facilities, and higher maintenance costs of IT software.

Professional and other contracted services increased by Php420 million, or 39%, to Php1,490 million primarily due to higher legal fees, contracted service fees for customer interaction solutions outsourcing project services, and payment facility fees.

Rent expenses decreased by Php124 million, or 9%, to Php1,306 million due to a decrease in international leased circuit and lower pole rental charges, partially offset by an increase in domestic leased circuit and office building rental charges.

Asset impairment increased by Php334 million, or 67%, to Php836 million mainly due to higher provision for uncollectible customer receivables.

Selling and promotion expenses decreased by Php25 million, or 4%, to Php679 million primarily due to lower spending on advertising and promotions partially offset by higher public relations in the first half of 2010.

Taxes and licenses decreased by Php103 million, or 23%, to Php351 million as a result of lower business-related taxes.

Communication, training and travel expenses decreased by Php55 million, or 17%, to Php265 million due to lower mailing and courier charges, foreign travel and training expenses and communication charges.

Insurance and security services decreased by Php52 million, or 19%, to Php219 million primarily due to lower insurance and bond premiums, and lower security services.

Cost of sales increased by Php52 million, or 39%, to Php186 million due to higher cost of SIM and GSM units sold for PLP prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Other expenses increased by Php89 million, or 38%, to Php323 million due to increases in various business and fixed line 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, 2010 and 2009:

	2010	2009	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Gains (losses) on derivative financial instruments – net	Php934	(Php1,622)	Php2,556	158
Interest income	252	236	16	7
Foreign exchange gains (losses) – net	51	(253)	304	120
Financing costs – net	(2,029)	(1,861)	(168)	9
Equity share in net losses of joint ventures	–	(46)	46	100
Others	372	421	(49)	(12)
Total	(Php420)	(Php3,125)	Php2,705	(87)

Our fixed line business segment's other expenses – net amounted to Php420 million in the first half of 2010, a decrease of Php2,705 million, or 87%, from Php3,125 million in the same period in 2009. The change was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php934 million in the first half of 2010 as against net losses on derivative financial instruments of Php1,622 million in the same period in 2009 due to the mark-to-market valuation on principal only currency swaps; (ii) increase in interest income by Php16 million; (iii) net foreign exchange gains of Php51 million in the first half of 2010 as against net foreign exchange losses of Php253 million in the same period in 2009 as a result of the slight appreciation of the Philippine peso to the U.S. dollar to Php46.42 on June 30, 2010 from Php46.43 on December 31, 2009 as against the peso depreciation from Php47.65 on December 31, 2008 to Php48.16 on June 30, 2009; and (iv) an increase in net financing costs by Php168 million due to an increase in interest expense on loans and related items – net on account of higher level of average loan balances partially offset by lower level of average interest rate.

Provision for Income Tax

Provision for income tax amounted to Php1,724 million, an increase of Php629 million, or 57%, in the first half of 2010 as compared with Php1,095 million in the same period in 2009 primarily due to higher taxable income.

Net Income

In the first half of 2010, our fixed line business segment contributed a net income of Php4,550 million, an increase of Php1,718 million, or 61%, as compared with Php2,832 million in the same period in 2009 primarily as a result of decreases in other expenses – net by Php2,705 million, partially offset by higher provision for income tax by Php629 million, higher fixed line-related expenses by Php227 million and a decrease in fixed line revenues by Php131 million. Our fixed line business segment's net income attributable to equity holders increased by Php1,716 million, or 61%, to Php4,544 million in the first half of 2010 from Php2,828 million in the same period in 2009. On the other hand, our fixed line business segment's core income decreased by Php160 million, or 4%, to Php3,753 million in the first half of 2010 from Php3,913 million in the same period in 2009.

Information and Communications Technology

Revenues

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

In the first half of 2010, our ICT business generated revenues of Php5,497 million, an increase of Php44 million, or 1%, as compared with Php5,453 million in the same period in 2009. This increase was primarily due to the continued growth of our data center service revenues, partially offset by a decrease in the revenue contribution of our customer interaction solutions, internet and online gaming, and knowledge processing solutions businesses.



The following table summarizes our total revenues from our ICT business for the six months ended June 30, 2010 and 2009 by service segment:

	2010		2009		Increase (Decrease)	
		%		%	Amount	%
	(in millions)					
Service Revenues:						
Knowledge processing solutions	Php2,502	46	Php2,519	46	(Php17)	(1)
Customer interaction solutions	1,526	28	1,683	31	(157)	(9)
Internet and online gaming	520	9	543	10	(23)	(4)
Data center and others	714	13	468	9	246	53
	<u>5,262</u>	<u>96</u>	<u>5,213</u>	<u>96</u>	<u>49</u>	<u>1</u>
Non-Service Revenues:						
Point-product sales	235	4	240	4	(5)	(2)
	<u>235</u>	<u>4</u>	<u>240</u>	<u>4</u>	<u>(5)</u>	<u>(2)</u>
Total ICT Revenues	<u>Php5,497</u>	<u>100</u>	<u>Php5,453</u>	<u>100</u>	<u>Php44</u>	<u>1</u>

Service Revenues

Service revenues generated by our ICT business segment amounted to Php5,262 million in the first half of 2010, an increase of Php49 million, or 1%, as compared with Php5,213 million in the same period in 2009 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business. This was partially offset by the decline in revenues from our customer interaction solutions, internet and online gaming, and knowledge processing solutions businesses. As a percentage of our total ICT business revenues, service revenues remained stable at 96% in each of the first half of 2010 and 2009.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php2,502 million in the first half of 2010, a decrease of Php17 million, or 1%, as compared with Php2,519 million in the same period in 2009 primarily due to a decrease in revenues from Coding services and the effect of the appreciation of the Philippine peso to the U.S. dollar on our U.S. dollar-denominated revenues. This was partially offset by additional revenue from Laguna Medical, which was acquired in September 2009, and increases in revenues from Medical Billing, Content BPO and Healthcare services. Knowledge processing solutions accounted for 47% and 48% of total service revenues of our ICT business in the first half of 2010 and 2009, respectively.

Customer Interaction Solutions

We provide our customer interaction solutions primarily through Ventus. Revenues relating to our customer interaction solutions business decreased by Php157 million, or 9%, to Php1,526 million in the first half of 2010 from Php1,683 million in the same period in 2009 primarily due to the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.78 for the six months ended June 30, 2010 from Php47.83 for the six months ended June 30, 2009. In total, we own and operate approximately 6,230 seats with an average of 4,671 customer service representatives, or CSRs, in the first half of 2010 as compared with approximately 5,280 seats with an average of 5,194 CSRs in the same period in 2009. As at June 30, 2010 and 2009, Ventus had seven and six customer interaction solution sites, respectively. Customer interaction solution revenues accounted for 29% and 32% of total service revenues of our ICT business in the first half of 2010 and 2009, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming businesses decreased by Php23 million, or 4%, to Php520 million in the first half of 2010 from Php543 million in the same period in 2009 primarily due to a decrease in publishing revenues as a result of more competitive games in the market, the power outages throughout the country and increase in electricity rates caused shorter operating hours of internet cafés. Our internet and online gaming business revenues accounted for 10% and 11% of total service revenues of our ICT business in the first half of 2010 and 2009, respectively.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitro*[™], which provides co-location or rental services, server hosting, data disaster recovery and business continuity services, intrusion detection, security services such as firewalls and managed firewalls, and other data services. In the first half of 2010, our data center contributed revenues of Php714 million, an increase of Php246 million, or 53%, from Php468 million in the same period in 2009 primarily due to an increase in co-location or rental revenues and disaster recovery services. Our data center revenues accounted for 14% and 9% of total service revenues of our ICT business in the first half of 2010 and 2009, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first half of 2010, non-service revenues generated by our ICT business decreased by Php5 million, or 2%, to Php235 million from Php240 million in the same period in 2009 primarily due to lower revenues from sales of software licenses.

Expenses

Expenses associated with our ICT business totaled Php5,277 million in the first half of 2010, a decrease of Php170 million, or 3%, as compared with Php5,447 million in the same period in 2009 primarily due to lower compensation and employee benefits, cost of sales, professional and other contracted services, and communication, training and travel expenses, partially offset by higher repairs and maintenance, asset impairment, amortization of intangible assets and other operating expenses. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 96% and 100% in the first half of 2010 and 2009, respectively.

The following table shows the breakdown of our total ICT-related expenses for the six months ended June 30, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
					Amount	%
	(in millions)					
ICT Services:						
Compensation and employee benefits ⁽¹⁾	Php3,024	57	Php3,234	59	(Php210)	(6)
Depreciation and amortization	377	7	386	7	(9)	(2)
Repairs and maintenance	366	7	313	6	53	17
Rent	349	7	342	6	7	2
Cost of sales	284	5	309	6	(25)	(8)
Professional and other contracted services	254	5	269	5	(15)	(6)
Communication, training and travel	222	4	234	4	(12)	(5)
Amortization of intangible assets	131	2	120	2	11	9
Taxes and licenses	51	1	62	1	(11)	(18)
Selling and promotions	50	1	53	1	(3)	(6)
Asset impairment	38	1	5	–	33	660
Insurance and security services	37	1	34	1	3	9
Other expenses	94	2	86	2	8	9
Total	Php5,277	100	Php5,447	100	(Php170)	(3)

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

Compensation and employee benefits decreased by Php210 million, or 6%, to Php3,024 million mainly due to a decline in salaries and employee benefits as a result of a decrease in ePLDT and subsidiaries' average employee headcount by 367, or 2%, to 15,783 in the first half of 2010 as compared with 16,150 in the same period in 2009, as well as lower provisions for LTIP partially offset by the increase in MRP costs and pension benefits. For further discussion on our LTIP and pension benefits, please see *Note 25 – Share-based Payments and Employee Benefits* of the accompanying unaudited consolidated financial statements.

Depreciation and amortization charges decreased by Php9 million, or 2%, to Php377 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions and customer interaction solutions businesses on account of higher fully depreciated assets and lower capital expenditures, partially offset by higher depreciation of capital expenditures related to Data Center expansion.

Repairs and maintenance expenses increased by Php53 million, or 17%, to Php366 million primarily due to higher IT software repairs and maintenance costs particularly data center business, higher office and electricity charges, partially offset by decrease in janitorial services and lower purchases of low-value software.

Rent expenses increased by Php7 million, or 2%, to Php349 million primarily due to higher office building and site rental charges.

Cost of sales decreased by Php25 million, or 8%, to Php284 million primarily due to lower volume of sales of software licenses and hardware products.

Professional and other contracted services decreased by Php15 million, or 6%, to Php254 million primarily due to lower contracted service fees incurred by customer interaction solutions business.

Communication, training and travel expenses decreased by Php12 million, or 5%, to Php222 million primarily due to lower local and foreign training and travel expenses, and communication and courier charges incurred by our customer interaction solutions and knowledge processing solutions businesses.

Amortization of intangible assets increased by Php11 million, or 9%, to Php131 million due to intangible assets from the acquisition of Laguna Medical and additional game licenses acquired by our gaming business in late 2009 and the first half of 2010. Please see *Note 14 – Goodwill and Intangible Assets* of the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses decreased by Php11 million, or 18%, to Php51 million primarily due to lower business-related taxes.

Selling and promotion expenses decreased by Php3 million, or 6%, to Php50 million mainly due to our gaming business' lower promotional expenses due to timing of its new major games.

Asset impairment increased by Php33 million, or 660%, to Php38 million primarily due to higher provision for uncollectible receivables in the first half of 2010.

Insurance and security services increased by Php3 million, or 9%, to Php37 million primarily due to higher security services.

Other expenses increased by Php8 million, or 9%, to Php94 million mainly due to higher various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income for the six months ended June 30, 2010 and 2009:

	2010	2009	Change	
			Amount	%
		(in millions)		
Other Income:				
Equity share in net earnings of associates	Php97	Php51	Php46	90
Interest income	16	14	2	14
Gains on derivative financial instruments – net	1	2	(1)	(50)
Foreign exchange gains (losses) – net	(5)	25	(30)	(120)
Financing costs – net	(88)	(68)	(20)	29
Others	45	14	31	221
Total	Php66	Php38	Php28	74

Our ICT business segment's other income – net amounted to Php66 million in the first half of 2010, an increase of Php28 million, or 74%, from Php38 million in the same period in 2009 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php46 million; (ii) an increase in other income by Php31 million mainly due to insurance claim received in 2010; (iii) an increase in financing costs – net by Php20 million; and (iv) net foreign exchange losses of Php5 million in the first half of 2010 as against net foreign exchange gains of Php25 million in the same period in 2009 due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in the first half of 2010.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php19 million in the first half of 2010 as against provision for income tax of Php42 million in the same period in 2009 primarily due to lower taxable income of Ventus.

Net Income

In the first half of 2010, our ICT business segment registered a net income of Php305 million, an increase of Php303 million from Php2 million in the same period in 2009 mainly as a result of Php170 million decrease in ICT-related expenses, higher benefit from income tax of Php61 million and

an increase in ICT service revenues by Php49 million. Our ICT business segment's net income attributable to equity holders increased by Php308 million to Php313 million in the first half of 2010 as compared with Php5 million in the same period in 2009. Our ICT business segment's core income amounted to Php344 million in the first half of 2010, an improvement of Php358 million as against a loss of Php14 million in the same period in 2009.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the six months ended June 30, 2010 and 2009 as well as our consolidated capitalization and other consolidated selected financial data as at June 30, 2010 and December 31, 2009:

	Six Months Ended June 30,	
	2010	2009
(in millions)	(Unaudited)	
Cash Flows		
Net cash provided by operating activities	31,848	Php34,348
Net cash used in investing activities	5,773	5,484
<i>Capital expenditures</i>	<i>9,700</i>	<i>10,666</i>
Net cash used in financing activities	35,595	21,091
Net increase (decrease) in cash and cash equivalents	(9,441)	7,808
	June 30,	December 31,
	2010	2009
	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php82,215	Php86,066
Obligations under finance lease	10	13
	<u>82,225</u>	<u>86,079</u>
Current portion of interest-bearing financial liabilities:		
Notes payable	186	2,279
Long-term debt maturing within one year	10,955	10,384
Obligations under finance lease maturing within one year	7	51
	<u>11,148</u>	<u>12,714</u>
Total interest-bearing financial liabilities	93,373	98,793
Total equity attributable to equity holders of PLDT	93,958	98,575
	<u>Php187,331</u>	<u>Php197,368</u>
Other Selected Financial Data		
Total assets	Php264,316	Php280,148
Property, plant and equipment	157,767	161,256
Cash and cash equivalents	28,878	38,319
Short-term investments	698	3,824

As at June 30, 2010, our consolidated cash and cash equivalents and short-term investments totaled Php29,576 million. Principal sources of consolidated cash and cash equivalents in the first half of 2010 were cash flows from operating activities amounting to Php31,848 million, net proceeds from maturity of short-term investments of Php3,134 million, proceeds from availment of long-term debt of Php2,246 million and interest received of Php665 million. These funds were used principally for: (1) dividend payments of Php26,330 million; (2) capital outlays of Php9,700 million; (3) total debt principal and interest payments of Php7,929 million and Php2,929 million, respectively; and (4) settlement of derivative financial instruments of Php458 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first half of 2010 decreased by Php2,500 million, or 7%, to Php31,848 million from Php34,348 million in the same period in 2009

primarily due to higher level of settlement of various payables, partially offset by higher collection of receivables.

A significant portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% of our total service revenues in each of the first half of 2010 and 2009. Revenues from our fixed line and ICT businesses accounted for 32% and 7%, respectively, of our total service revenues in each of the first half of 2010 and 2009.

Cash flows from operating activities of our wireless business amounted to Php22,439 million in the first half of 2010, a decrease of Php6,872 million, or 23%, as compared with Php29,311 million in the same period in 2009. The decrease in our wireless business segment's cash flows from operating activities was a result of a higher level of outstanding receivables in the first half of 2010, mainly from dealers, carriers and subscribers, LTIP payout in 2010 and a higher net settlement of other payables in the first half of 2010. Likewise, cash flows from operating activities of our ICT business decreased by Php369 million, or 40%, to Php561 million in the first half of 2010 from Php930 million in the same period in 2009 mainly due to higher working capital requirements in the first half of 2010. On the other hand, cash flows provided by operating activities of our fixed line business amounted to Php8,854 million in the first half of 2010, an increase of Php4,759 million, or 116%, as compared with Php4,095 million in the same period in 2009 primarily due to higher collection of accounts receivables and absence of pension contributions made to the beneficial trust fund, partially offset by LTIP payout in 2010 and higher level of settlement of other current liabilities in the first half of 2010.

Investing Activities

Consolidated net cash used in investing activities amounted to Php5,773 million in the first half of 2010, an increase of Php289 million, or 5%, as compared with Php5,484 million in the same period in 2009 primarily due to the combined effects of the following: (1) lower net proceeds from the maturity of short-term investments by Php1,499 million; (2) lower interest received of Php232 million; (3) lower net payments of investments in debt securities by Php453 million; and (4) decrease in capital expenditures by Php966 million in the first half of 2010.

Our consolidated capital expenditures in the first half of 2010 totaled Php9,700 million, a decrease of Php966 million, or 9%, as compared with Php10,666 million in the same period in 2009 primarily due to decreases in PLDT's and Smart's capital spending. PLDT's capital spending of Php4,425 million in the first half of 2010 was principally used to finance the expansion and upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php4,974 million in the first half of 2010 was used primarily to build a secondary network for unlimited voice services, expand its 3G 2100 broadband network, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries' capital spending of Php220 million in the first half of 2010 was primarily used to fund the continued expansion of its customer interaction solutions facilities. The balance represented other subsidiaries' capital spending.

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

Dividends of Php17,000 million and Php7,000 million, which were declared in December 2009 and March 2010, respectively, were received by PLDT from Smart on April 4, 2010 and July 16, 2010, respectively. Further, dividends of Php14,800 million and Php5,640 million, which were both declared in March 2009, were received by PLDT from Smart on April 13, 2009 and September 11, 2009, respectively.

In the first half of 2010 and 2009, PCEV paid cash dividends to common shareholders amounting to Php9,931 and Php6,077 million, of which Php9,882 million and Php5,640 million, respectively, were paid to Smart.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php35,595 million in the first half of 2010, an increase of Php14,504 million, or 69%, as compared with Php21,091 million in the same period in 2009 resulting largely from the combined effects of the following: (1) lower proceeds from the issuance of long-term debt and notes payable by Php16,665 million in the first half of 2010; (2) lower net proceeds of capital expenditures under long-term financing by Php1,595 million; (3) higher cash dividend payments by Php1,578 million; (4) higher interest payments by Php365 million; (5) lower repayments of long-term debt and notes payable by Php3,825 million; (6) lower share buyback in the first half of 2010 by Php1,680 million; and (7) lower settlement of derivative financial instruments by Php305 million.

Debt Financing

Our consolidated long-term debt decreased by Php3,280 million, or 3%, to Php93,170 million in the first half of 2010 mainly due to debt amortizations and prepayments partially offset by proceeds from the availment of long-term debt during the period. Total long-term debt of PLDT and Smart decreased by 6% and 1% to Php50,604 million and Php42,434 million, respectively, as at June 30, 2010 as compared with December 31, 2009.

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement.

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance Smart's capital expenditures for network improvement and expansion.

Approximately Php50,365 million principal amount of our consolidated outstanding long-term debt as at June 30, 2010 is scheduled to mature over the period from 2010 to 2013. Of this amount, Php28,611 million is attributable to Smart, Php21,622 million to PLDT, and the remainder to ePLDT.

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

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first half of 2010 amounted to Php26,330 million as compared with Php24,752 million paid to shareholders in the same period in 2009. On August 3, 2010, we declared a regular cash dividend of Php78 per share, representing approximately 70% payout of our 2010 core earnings per share. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately 100% payout of our 2009 core earnings per share.

Off-Statement of Financial Position Arrangements

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

Equity Financing

PLDT raised Php12 million from the exercise by certain officers and executives of stock options in the first half of 2009. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT raised Php1 million in each of the first half of 2010 and 2009 from this source.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. As at June 30, 2010 and December 31, 2009, we had acquired a total of approximately 2.7 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million. Please see to *Note 8 – Earnings Per Common Share*, *Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* of 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, see *Note 26 – Contractual Obligations and Commercial Commitments* of the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at June 30, 2010 and December 31, 2009, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php685 million and Php1,317 million, 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. 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 26 – Contractual Obligations and Commercial Commitments* and *Note 28 – Financial Assets and Liabilities* of 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, 2010 and March 31, 2010:

	Fair Values	
	June 30, 2010	March 31, 2010
	(Unaudited)	
(in millions)		
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php67	Php70
Unlisted equity securities	63	62
Investments in debt securities	485	482
Advances and refundable deposits – net of current portion	928	750
Total noncurrent financial assets	1,543	1,364
Current Financial Assets		
Cash and cash equivalents	28,878	50,933
Short-term investments	698	703
Trade and other receivables - net	15,415	15,234
Derivative financial assets	5	6
Current portion of advances and refundable deposits	16	7
Total current financial assets	45,012	66,883
Total Financial Assets	Php46,555	Php68,247
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php86,731	Php84,852
Derivative financial liabilities	1,361	2,080
Customers' deposits	1,395	1,302
Deferred credits and other noncurrent liabilities	10,753	11,568
Total noncurrent financial liabilities	100,240	99,802
Current Financial Liabilities		
Accounts payable	14,995	16,016
Accrued expenses and other current liabilities	26,923	29,362
Interest-bearing financial liabilities	11,148	13,158
Dividends payable	1,852	28,061
Total current financial liabilities	54,918	86,597
Total Financial Liabilities	Php155,158	Php186,399



The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the six months ended June 30, 2010 and the three months ended March 31, 2010:

(in millions)	June 30, 2010	March 31, 2010
	(Unaudited)	
Profit and Loss		
Interest income	Php612	Php366
Gains on derivative financial instruments – net	934	512
Accretion on financial liabilities – net	(567)	(288)
Interest on loans and other related items	(3,142)	(1,569)
Other Comprehensive Income		
Net gains on available-for-sale financial assets	8	6
	<u>(Php2,155)</u>	<u>(Php973)</u>

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in the first half of 2010 was 4.3% as compared with 5.0% in the same period in 2009. We expect inflation to be steady until the end of the year.

PART II – OTHER INFORMATION

Transfer of PCEV's Equity Interest in Meralco

On March 1, 2010, PCEV, Metro Pacific Investments Corporation, or MPIC, and Beacon Electric Asset Holdings, Inc., or Beacon, entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., is a newly organized special purpose company with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both hold equity shares in Meralco, see *Note 10 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements for further discussion. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Investment in Beacon

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

On April 29, 2010, the Philippine SEC approved Beacon's application to increase its authorized capital stock to Php5 billion consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540 million in the aggregate; and (2) Php6,600 million in cash, as further described below in "Transfer of Meralco Shares to Beacon".

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of PCEV, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon. The deposit for future stock subscription was eventually reclassified to investment account when Beacon's increase in authorized capital stock was approved by the Philippine SEC.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in "Transfer of Meralco Shares to Beacon" section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares described above, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the

MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the PCEV Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was expected to be obtained on March 30, 2010; and (d) the approval of the shareholders of PCEV, which was obtained on May 7, 2010. Consequently, on May 12, 2010, PCEV transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the Philippine Stock Exchange.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,084 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,046 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,084 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to First Philippine Holdings Corporation, or FPHC, if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon by MPIC and PCEV in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

PCEV may, at some future time and under such terms and conditions as may be agreed by PCEV and Beacon, transfer to Beacon its remaining 68.8 million Meralco common shares.

Call Option

Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by PCEV and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

Governance Arrangements

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure resulted in a jointly-controlled entity.

On March 30, 2010, Beacon also entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. As at June 30, 2010, the amount drawn under this facility amounted to Php16,200 million (Php16,018 million, net of debt issuance cost of Php182 million); the remaining undrawn balance amounted to Php1,800 million.

As at June 30, 2010, Beacon held 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco with market value of Php73,006 million based on a

quoted price of Php186 per share.

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

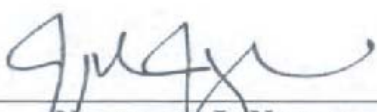
The following table shows the aging of our consolidated receivables as at June 30, 2010:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
(In Millions)					
Corporate subscribers	Php9,192	Php1,187	Php1,979	Php735	Php5,291
Retail subscribers	8,320	2,060	969	347	4,944
Foreign administrations	4,758	1,476	1,346	349	1,587
Domestic carriers.....	1,961	97	191	150	1,523
Dealers, agents and others	4,190	3,541	47	40	562
Total	Php28,421	Php8,361	Php4,532	Php1,621	Php13,907
Less: Allowance for doubtful accounts	<u>13,006</u>				
Total Receivables - net	<u>Php15,415</u>				

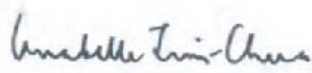
SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first half of 2010 to be signed on its behalf by the undersigned thereunto duly authorized.

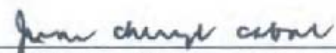
Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: 

NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: 

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

Signature and Title: 

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

Date: August 3, 2010