
**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, 2012

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

August 7, 2012

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

Attention: Ms. Janet A. Encarnacion
Head, Disclosure Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith a copy of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited consolidated financial statements for the six (6) months ended June 30, 2012.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY



MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

COVER SHEET

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

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

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

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

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

MS. JUNE CHERYL A. CABAL-REVILLA
Contact Person

816-8534
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

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Month Day
Annual Meeting

C F D
Dept. Requiring this Doc.

N/A
Amended Articles
Number/Section

12,298
As of June 30, 2012
Total No. of Stockholders

Total Amount of Borrowings
N/A
Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

File Number

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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, 2012
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. Philippine Long Distance Telephone Company
Exact name of registrant as specified in its charter
5. Republic of the Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: _____ (SEC Use Only)
7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721
Address of registrant's principal office Postal Code
8. (632) 816-8556
Registrant's telephone number, including area code
9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 of the SRC
Title of Each Class Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value 216,055,775 shares as at June 30, 2012
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, 2012 (unaudited) and December 31, 2011 (audited) and for the six months ended June 30, 2012 and 2011 and related notes (pages F-1 to F-130) 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 (see Note 2 – Summary of Significant Accounting Policies to the accompanying unaudited consolidated financial statements for the list of these subsidiaries, including a description of their respective principal business activities and PLDT’s direct and/or indirect equity interest).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which is virtually converged with International Financial Reporting Standards as issued by the International Accounting Standards Board, except for some transitional differences. PFRS differs in certain significant respects from generally accepted accounting principles, or GAAP, in the U.S. The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to “Philippine pesos,” “Php” or “pesos” are to the lawful currency of the Philippines; all references to “U.S. dollars,” “US\$” or “dollars” are to the lawful currency of the United States; all references to “Japanese yen,” “JP¥” or “yen” are to the lawful currency of Japan and all references to “Euro” or “€” are to the lawful currency of the European Union. Unless otherwise indicated, translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php42.28 to US\$1.00, the volume weighted average exchange rate as at June 30, 2012 quoted through the Philippine Dealing System.

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

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



Financial Highlights and Key Performance Indicators

	June 30, 2012 ⁽¹⁾	December 31, 2011 ⁽¹⁾	Decrease	
	(Unaudited)	(Audited)	Amount	%
(in millions, except for net debt to equity ratio, EBITDA margin, earnings per common share, operational data and exchange rates)				
Consolidated Statements of Financial Position				
Total assets	Php385,274	Php395,646	(Php10,372)	(3)
Property, plant and equipment – net	191,790	197,731	(5,941)	(3)
Cash and cash equivalents and short-term investments	32,223	46,615	(14,392)	(31)
Total equity attributable to equity holders of PLDT	146,116	151,833	(5,717)	(4)
Notes payable and long-term debt, including current portion	114,223	117,275	(3,052)	(3)
Net debt ⁽²⁾ to equity ratio	0.56x	0.47x	–	–
	Six Months Ended June 30, 2012 ⁽¹⁾	2011	Increase (Decrease)	
			Amount	%
Consolidated Income Statements				
Revenues ⁽³⁾	Php86,232	Php76,759	Php9,473	12
Expenses ⁽³⁾	63,241	48,512	14,729	30
Other income (expenses)	2,964	(153)	3,117	2,037
Income before income tax	25,955	28,094	(2,139)	(8)
Net income	19,471	21,296	(1,825)	(9)
Net income attributable to equity holders of PLDT:				
Reported net income	19,502	21,299	(1,797)	(8)
Core income	18,661	21,023	(2,362)	(11)
EBITDA	39,300	41,512	(2,212)	(5)
EBITDA margin ^{(3) and (4)}	46%	55%	(9%)	(16)
Reported earnings per common share:				
Basic	90.15	112.83	(22.68)	(20)
Diluted	90.15	112.76	(22.61)	(20)
Core earnings per common share ⁽⁵⁾ :				
Basic	86.26	111.35	(25.09)	(23)
Diluted	86.26	111.30	(25.04)	(22)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	35,920	34,629	1,291	4
Net cash used in investing activities	12,485	6,298	6,187	98
Capital expenditures	9,298	6,335	2,963	47
Net cash used in financing activities	37,632	26,285	11,347	43
Operational Data				
Number of cellular subscribers	67,429,102	47,834,533	19,594,569	41
Number of fixed line subscribers	2,133,478	1,856,890	276,588	15
Number of broadband subscribers:	3,061,686	2,212,219	849,467	38
Fixed Line	892,959	720,519	172,440	24
Wireless	2,168,727	1,491,700	677,027	45
Number of employees:	35,190	29,327	5,863	20
Fixed Line	10,746	9,770	976	10
LEC	7,972	7,410	562	8
Others	2,774	2,360	414	18
Wireless	8,131	5,069	3,062	60
Business Process Outsourcing	16,313	14,488	1,825	13
			Weighted average rates	
Exchange Rates – per US\$			Month-end rates	during the period
June 30, 2012		Php42.28	Php42.90	
December 31, 2011		43.92	43.31	
June 30, 2011		43.36	43.52	
December 31, 2010		43.81	45.12	

⁽¹⁾ Includes the Digital Group's (Digital and DMPI) financial information and operational data as at June 30, 2012 and December 31, 2011, and for the first half of 2012.

⁽²⁾ Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable).

⁽³⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues, as discussed below, and the implementation of the reorganization of our business segments, as discussed in the "Overview" section.

⁽⁴⁾ EBITDA margin is measured as EBITDA divided by service revenues for the period.

⁽⁵⁾ Core earnings per common share, or core EPS, is measured as core income attributable to common equity holders of PLDT divided by the weighted average number of common shares for the period.

As discussed in Other Information and Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT’s Acquisition of Digitel to the accompanying unaudited consolidated financial statements, the acquisition of Digitel was completed on October 26, 2011. Incremental impact of the Digitel Group on our consolidated financial highlights and results of operations as at and for the six months ended June 30, 2012, as set forth in the table below:

(in millions, except for EBITDA margin and operational data)	<u>Digitel Group</u>	<u>Intercompany Transactions</u>	<u>Incremental Impact of the Digitel Group on PLDT Group</u>
Income Statements			
Revenues	Php11,974	(Php634)	Php11,340
Expenses	11,746	(846)	10,900
Other income	2,440	(1,976)	464
Income before income tax	2,668	(1,764)	904
Net income for the period	2,519	(1,764)	755
Net income attributable to equity holders:			
Reported net loss	2,519	(1,762)	757
Core income	(11)	378	367
EBITDA	3,233	212	3,445
EBITDA margin ⁽¹⁾	28%	–	31%
Statements of Cash Flows			
Net cash provided by operating activities	3,663	–	3,663
Net cash used in investing activities	535	–	535
Capital expenditures	548	–	548
Net cash used in financing activities	2,367	–	2,367
Operational Data			
Number of cellular subscribers	15,944,027	–	15,944,027
Number of fixed line subscribers	282,879	–	282,879
Number of broadband subscribers	635,400	–	635,400
Fixed Line	101,532	–	101,532
Wireless	533,868	–	533,868

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

Change in the Presentation of our Outbound Revenues

In December 2011, we changed the presentation of our outbound revenues to gross amounts before charges billed to us, where applicable, by other carriers. In doing so, interconnection costs are then presented as a separate line item in the expense section of our consolidated income statements. Prior to December 2011, we presented outbound revenues net of the share of other carriers. We made this change to present outbound revenue on a gross basis to more correctly present and align our consolidated income statement presentation with the predominant global practice in the telecommunications industry.

Overview

We are the largest and most diversified telecommunications company in the Philippines. Based on the recent reorganization, as discussed below, we have organized our business into business units based on our products and services and have four reportable operating segments which serve as bases for management’s decision to allocate resources and evaluate operating performance:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Connectivity Unlimited Resource Enterprise, or CURE (the *Red Mobile* business of CURE was transferred to Smart on June 30, 2012), and Digital Mobile

Philippines, Inc., or DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digital Telecommunications Inc., or Digitel (PLDT acquired a controlling interest in Digitel on October 26, 2011 and through a series of transactions holds approximately 99.5% of the outstanding common stock of Digitel as at June 30, 2012), our cellular service providers; Smart Broadband, Inc., or SBI, and Primeworld Digital Systems, Inc., or PDSI, our wireless broadband service providers; Wolfpac Mobile, Inc., or Wolfpac, and Chikka Holdings Limited, or Chikka, and its subsidiaries, or Chikka Group, our wireless content operators; and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operator;

- *Fixed Line* — fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Philcom, Inc. or Philcom, and its subsidiaries, or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global Corporation, or PLDT Global, and Digitel, all of which together account for approximately 16% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and ABM Global Solutions, Inc. (formerly known as BayanTrade, Inc.), or AGS, and its subsidiaries, or AGS Group; netGames, Inc.; and bills printing and other value-added services, or VAS, -related services provided by ePDS, Inc., or ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% on August 24, 2011). ePLDT disposed of its 75% interest in Digital Paradise, a provider of internet access services, on April 1, 2011, disposed of its 57.51% interest in Level Up!, a publisher of online games, on July 11, 2011, and transferred its 99.64% interest in Infocom to SPi Global on December 6, 2011;
- *Business Process Outsourcing, or BPO* — knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and its subsidiaries, or SPi Group; and customer relationship management provided by SPi CRM Inc., or SPi CRM, and Infocom (ePLDT transferred the internet business of Infocom to PLDT on July 1, 2011); and
- *Others* — PCEV, an investment company.

See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests* to the accompanying unaudited consolidated financial statements.

The primary effects of the acquisition of the Digitel Group on our operating segments is the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand.

On July 7, 2010, our Board of Directors approved the reorganization of the ePLDT Group into two business groups: (i) the information and communications technology, or ICT, business group, which provides data center services, internet and online gaming services and business solutions and applications, and which was subsequently incorporated into our fixed line business; and (ii) the BPO business group, which covers customer relationship management or call center operations under SPi CRM; and content solutions, medical billing and coding and medical transcription services under SPi.

With our objective to grow the BPO business segment, and for ePLDT to focus on its core business of IT infrastructure and services, our Board of Directors approved on July 5, 2011 to spin off SPi and SPi CRM from ePLDT and transfer the ownership of SPi Global to PLDT, and to place both SPi and SPi CRM under SPi Global. Subsequently, the Board of Directors decided to include Infocom in the spin-off. The reorganization was completed on December 6, 2011.

PCEV transferred its cellular business to Smart in August 2009 and acquired 223 million common shares, or about 20% equity interest, in Manila Electric Company, or Meralco, in March 2010. PCEV acquired 50% equity interest in Beacon Electric Asset Holdings, Inc., or Beacon, effective March 31, 2010, 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment company and was reclassified PCEV from Wireless to Others business segment.

As at June 30, 2012, our chief operating decision maker views our business activities in four business units: Wireless, Fixed Line, BPO and Others, compared to three business units in 2010: Wireless, Fixed Line and ICT. The remaining ICT businesses, which do not form part of our BPO, were reclassified into our fixed line segment. We have retroactively implemented the above changes in our segment reporting and restated our comparative operating segment information accordingly.

Performance Indicators

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

EBITDA

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

Core Income

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

Management’s Financial Review

We use EBITDA and core income to assess our operating performance. The reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the six months ended June 30, 2012 and 2011 are set forth below.

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

	<u>2012</u>	<u>2011</u>
	(in millions)	
Consolidated EBITDA	Php39,300	Php41,512
Foreign exchange gains – net	1,565	426
Equity share in net earnings of associates and joint ventures	1,311	839
Interest income	626	645
Asset impairment	–	(3)
Gains (losses) on derivative financial instruments – net	(403)	484
Amortization of intangible assets	(785)	(144)
Financing costs – net	(3,377)	(3,178)
Depreciation and amortization	(15,524)	(13,118)
Other income	3,242	631
Consolidated income before income tax	<u>25,955</u>	<u>28,094</u>
Provision for income tax	(6,484)	(6,798)
Consolidated net income	<u>Php19,471</u>	<u>Php21,296</u>



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

	2012	2011
	(in millions)	
Consolidated core income	Php18,661	Php21,023
Foreign exchange gains – net	1,565	423
Core income adjustment on equity share in net earnings of associates and joint ventures	(93)	(458)
Gains (losses) on derivative financial instruments – net, excluding hedge cost	(230)	663
Others	–	(74)
Net tax effect of aforementioned adjustments	(401)	(278)
Net income attributable to equity holders of PLDT	19,502	21,299
Net loss attributable to noncontrolling interests	(31)	(3)
Consolidated net income	Php19,471	Php21,296

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income, EBITDA, EBITDA margin and core income for the six months ended June 30, 2012 and 2011. In each of the six months ended June 30, 2012 and 2011, we generated a majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated						
	(in millions)											
For the six months ended June 30, 2012												
Revenues	Php59,635	Php30,742	Php4,836	Php–	(Php8,981)	Php86,232						
Expenses	40,895	27,347	4,153	11	(9,165)	63,241						
Other income (expenses)	382	(685)	(10)	3,461	(184)	2,964						
Income before income tax	19,122	2,710	673	3,450	–	25,955						
Provision for income tax	5,670	629	181	4	–	6,484						
Net income/Segment profit	13,452	2,081	492	3,446	–	19,471						
EBITDA	28,208	9,928	991	(11)	184	39,300						
EBITDA margin ⁽¹⁾	48%	33%	20%	–	–	46%						
Core income	12,703	1,922	497	3,539	–	18,661						
For the six months ended June 30, 2011												
Revenues	50,875	29,615	4,126	–	(7,857)	76,759						
Expenses	28,641	24,149	3,701	7	(7,986)	48,512						
Other income (expenses)	(592)	(296)	1	863	(129)	(153)						
Income before income tax	21,642	5,170	426	856	–	28,094						
Provision for income tax	5,380	1,395	20	3	–	6,798						
Net income/Segment profit	16,262	3,775	406	853	–	21,296						
EBITDA	29,046	11,639	705	(7)	129	41,512						
EBITDA margin ⁽¹⁾	58%	40%	17%	–	–	55%						
Core income	16,117	3,182	413	1,311	–	21,023						
Increase (Decrease)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
Revenues	Php8,760	17	Php1,127	4	Php710	17	Php–	–	(Php1,124)	14	Php9,473	12
Expenses	12,254	43	3,198	13	452	12	4	57	(1,179)	15	14,729	30
Other income (expenses)	974	165	(389)	131	(11)	(1,100)	2,598	301	(55)	43	3,117	2,037
Income before income tax	(2,520)	(12)	(2,460)	(48)	247	58	2,594	303	–	–	(2,139)	(8)
Provision for income tax	290	5	(766)	(55)	161	805	1	33	–	–	(314)	(5)
Net income/Segment profit (loss)	(2,810)	(17)	(1,694)	(45)	86	21	2,593	304	–	–	(1,825)	(9)
EBITDA	(838)	(3)	(1,711)	(15)	286	41	(4)	57	55	43	(2,212)	(5)
Core income	(3,414)	(21)	(1,260)	(40)	84	20	2,228	170	–	–	(2,362)	(11)

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



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

	Wireless	Fixed Line	Consolidated (in millions)	Intercompany Transactions	Incremental Effect on PLDT Group
Revenues	Php10,273	Php1,701	Php11,974	(Php634)	Php11,340
Expenses	9,950	1,796	11,746	(846)	10,900
Other income	118	2,322	2,440	(1,976)	464
Income before income tax	441	2,227	2,668	(1,764)	904
Provision for income tax	68	81	149	-	149
Net income /Segment profit	373	2,146	2,519	(1,764)	755
EBITDA	3,061	172	3,233	212	3,445
EBITDA margin ⁽¹⁾	31%	10%	28%	-	31%
Core income (loss)	53	(64)	(11)	378	367

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

On a Consolidated Basis

We reported consolidated revenues of Php86,232 million, which includes a revenue contribution from the Digitel Group of Php11,340 million, in the first half of 2012, an increase of Php9,473 million, or 12%, as compared with Php76,759 million in the same period in 2011, primarily due to an increase in our service revenues by Php9,107 million as a result of higher cellular and broadband revenues from our wireless business, higher revenues from data and other network, local exchange and international long distance services of our fixed line business, as well as higher service revenues from our BPO business, partially offset by lower revenues from national long distance and miscellaneous services of our fixed line business, and satellite and other services of our wireless business.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Change	
					Amount	%
			(in millions)			
Wireless	Php59,635	69	Php50,875	66	Php8,760	17
Fixed line	30,742	36	29,615	39	1,127	4
BPO	4,836	5	4,126	5	710	17
Inter-segment transactions	(8,981)	(10)	(7,857)	(10)	(1,124)	14
Consolidated	Php86,232	100	Php76,759	100	Php9,473	12

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.

Consolidated expenses increased by Php14,729 million, or 30%, to Php63,241 million in the first half of 2012, which includes expenses from the Digitel Group of Php10,900 million, from Php48,512 million in the same period in 2011, largely as a result of higher compensation and employee benefits, depreciation and amortization, cost of sales, repairs and maintenance, selling and promotions, rent, taxes and licenses, amortization of intangible assets, and professional and other contracted services, partly offset by a decrease in other operating expenses.

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

	2012 ⁽¹⁾		2011 ⁽²⁾		Change	
		%		%	Amount	%
	(in millions)					
Wireless	Php40,895	65	Php28,641	59	Php12,254	43
Fixed line	27,347	43	24,149	50	3,198	13
BPO	4,153	6	3,701	8	452	12
Others	11	–	7	–	4	57
Inter-segment transactions	(9,165)	(14)	(7,986)	(17)	(1,179)	15
Consolidated	Php63,241	100	Php48,512	100	Php14,729	30

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.

Consolidated other income in the first half of 2012, which includes other income from the Digitel Group of Php464 million, amounted to Php2,964 million, a change of Php3,117 million as against other expenses of Php153 million in the same period in 2011, primarily due to the combined effects of the following: (i) an increase in other income by Php2,611 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon, the effect of the inclusion of Digitel's other income, higher net gain on fixed assets disposal and the reversal of prior year's provisions, partially offset by lower pension benefit income recognized by PLDT; (ii) higher net foreign exchange gains by Php1,139 million mainly due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of a higher level of appreciation of the Philippine peso to the U.S. dollar and the inclusion of Digitel's gain on revaluation of dollar-denominated net liabilities in the first half of 2012; (iii) net increase in equity share in net earnings of associates and joint ventures by Php472 million; (iv) lower interest income by Php19 million due to a lower average interest rates, effect of appreciation of the Philippine peso relative to the U.S. dollar and shorter average tenor of placements, partly offset by the higher average level of investments; (v) an increase in net financing costs by Php199 million mainly due to higher interest on loans and other related items on account of higher outstanding long-term debts, partially offset by our wireless business' higher capitalized interest in the first half of 2012; and (vi) net losses on derivative financial instruments of Php403 million in the first half of 2012 as against net gains on derivative financial instruments of Php484 million in the same period in 2011 mainly due to the effect of narrower U.S. dollar and Philippine peso interest rate differentials on principal-only swap transactions of PLDT and lower interest rate swap contracts of DMPI in the first half of 2012, partially offset by lower hedge costs.

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

	2012 ⁽¹⁾		2011 ⁽²⁾		Change	
		%		%	Amount	%
	(in millions)					
Wireless	Php382	13	(Php592)	387	Php974	165
Fixed line	(685)	(24)	(296)	194	(389)	131
BPO	(10)	–	1	(1)	(11)	1,100
Others	3,461	117	863	(564)	2,598	301
Inter-segment transactions	(184)	(6)	(129)	84	(55)	43
Consolidated	Php2,964	100	(Php153)	100	Php3,117	(2,037)

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.

Consolidated net income decreased by Php1,825 million, or 9%, to Php19,471 million, which includes net income contribution from the Digitel Group of Php755 million, in the first half of 2012, from Php21,296 million in the same period in 2011. The decrease was mainly due to the combined effects of the following: (i) an increase in consolidated expenses by Php14,729 million; (ii) an increase in consolidated revenues by Php9,473 million; (iii) an increase in consolidated other income – net by Php3,117 million; and (iv) a decrease in consolidated provision for income tax by Php314 million, which was mainly due to lower taxable income from our fixed line business, partially offset by higher taxable income of our wireless, BPO and other businesses. Our consolidated basic and diluted EPS decreased to Php90.15 in the first half of 2012 from consolidated basic and diluted EPS of Php112.83 and Php112.76, respectively, in the same period in 2011. Our weighted average number of outstanding common shares was approximately 216.1 million and 186.8 million in the six months ended June 30, 2012 and 2011, respectively.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Change	
					Amount	%
	(in millions)					
Wireless	Php13,452	69	Php16,262	76	(Php2,810)	(17)
Fixed line	2,081	11	3,775	18	(1,694)	(45)
BPO	492	2	406	2	86	21
Others	3,446	18	853	4	2,593	304
Consolidated	Php19,471	100	Php21,296	100	(Php1,825)	(9)

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.

EBITDA

Our consolidated EBITDA in the first half of 2012, which includes an EBITDA contribution from the Digitel Group of Php3,445 million, amounted to Php39,300 million, a decrease of Php2,212 million, or 5%, as compared with Php41,512 million in the same period in 2011, primarily due to higher operating expenses driven by higher compensation and employee benefits, cost of sales, repairs and maintenance, selling and promotions, rent, and taxes and licenses, partially offset by an increase in consolidated revenues.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Change	
					Amount	%
	(in millions)					
Wireless	Php28,208	72	Php29,046	70	(Php838)	(3)
Fixed line	9,928	25	11,639	28	(1,711)	(15)
BPO	991	3	705	2	286	41
Others	(11)	–	(7)	–	(4)	57
Inter-segment transactions	184	–	129	–	55	43
Consolidated	Php39,300	100	Php41,512	100	(Php2,212)	(5)

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.

Core Income

Our consolidated core income in the first half of 2012, which includes core income from the Digitel Group of Php367 million, amounted to Php18,661 million, a decrease of Php2,362 million, or 11%, as compared with Php21,023 million in the same period in 2011, primarily due to an increase in consolidated expenses, partially offset by increases in consolidated revenues and other income, as well as lower provision for income tax. Our consolidated basic and diluted core EPS also decreased to Php86.26 in the first half of 2012 from Php111.35 and Php111.30, respectively, in the same period in 2011.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Wireless	Php12,703	68	Php16,117	77	(Php3,414)	(21)
Fixed line	1,922	10	3,182	15	(1,260)	(40)
BPO	497	3	413	2	84	20
Others	3,539	19	1,311	6	2,228	170
Consolidated	Php18,661	100	Php21,023	100	(Php2,362)	(11)

⁽¹⁾ Includes the Digitel Group's results of operations for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the implementation of the reorganization of our business segments.

On a Business Segment Basis

Wireless

Revenues

We generated revenues from our wireless business of Php59,635 million, including a contribution from DMPI of Php10,273 million, in the first half of 2012, an increase of Php8,760 million, or 17%, from Php50,875 million in the same period in 2011.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾ (in millions)		Increase (Decrease)	
					Amount	%
Service Revenues:						
Cellular	Php53,405	90	Php46,251	91	Php7,154	15
Wireless broadband, satellite and others						
Wireless broadband	4,249	7	3,188	6	1,061	33
Satellite and others	800	1	840	2	(40)	(5)
	58,454	98	50,279	99	8,175	16
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,181	2	596	1	585	98
Total Wireless Revenues	Php59,635	100	Php50,875	100	Php8,760	17

⁽¹⁾ Includes DMPI's revenues for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

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

	Amount	%
	(in millions)	
Service Revenues:		
Cellular	Php9,078	88
Wireless broadband	932	9
	10,010	97
Non-Service Revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	263	3
Total Wireless Revenues	Php10,273	100

Service Revenues

Our wireless service revenues in the first half of 2012, which includes service revenues from DMPI of Php10,010 million, increased by Php8,175 million, or 16%, to Php58,454 million as compared with Php50,279 million in the same period in 2011, mainly as a result of higher revenues from our cellular and wireless broadband services. The increase in our cellular revenues was mainly due to the inclusion of DMPI's revenues for the first half of 2012, partially offset by the decline in Smart's revenues from domestic and international calls, as well as domestic outbound and inbound text messaging services as a result of increased utilization of unlimited offers, increasing patronage of social networking sites, and the NTC-mandated decrease in SMS interconnection charges. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php42.90 for the six months ended June 30, 2012 from Php43.52 for the six months ended June 30, 2011. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for the first half of 2012 were lower as compared with the same period in 2011. As a percentage of our total wireless revenues, service revenues amounted to 98% and 99% in the first half of 2012 and 2011, respectively.

Cellular Service

Our cellular service revenues in the first half of 2012, which includes revenues from DMPI of Php9,078 million, amounted to Php53,405 million, an increase of Php7,154 million, or 15%, from Php46,251 million in the same period in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in the first half of 2012 and 2011, respectively.

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

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

	2012 ⁽¹⁾	2011 ⁽²⁾	Increase	
			Amount	%
	(in millions)			
Cellular service revenues	Php53,405	Php46,251	Php7,154	15
<i>By service type</i>	52,034	45,070	6,964	15
Prepaid	43,876	41,053	2,823	7
Postpaid	8,158	4,017	4,141	103
<i>By component</i>	52,034	45,070	6,964	15
Voice	25,066	21,808	3,258	15
Data	26,968	23,262	3,706	16
<i>Others⁽³⁾</i>	1,371	1,181	190	16

⁽¹⁾ Includes DMPI's revenues for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

⁽³⁾ Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, share in revenues from PLDT's WeRoam and PLDT Landline Plus, or PLP, services, a small number of leased line contracts, and revenues from Chikka and other Smart subsidiaries.

The following table shows the breakdown of DMPI's cellular service revenues for the six months ended June 30, 2012:

Cellular service revenues (in millions)	Php9,078
<i>By service type</i>	8,919
Prepaid	5,376
Postpaid	3,543
<i>By component</i>	8,919
Voice	5,006
Data	3,913
<i>Others</i>	159



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

	2012	2011	Increase (Decrease)	
			Amount	%
Cellular subscriber base	67,429,102	47,834,533	19,594,569	41
Prepaid	65,313,661	47,404,197	17,909,464	38
<i>Smart Prepaid</i>	26,287,817	26,079,785	208,032	1
<i>Talk 'N Text</i>	23,992,900	19,777,498	4,215,402	21
<i>Sun Cellular</i> ⁽¹⁾	14,470,645	–	14,470,645	100
<i>Red Mobile</i>	562,299	1,546,914	(984,615)	(64)
Postpaid	2,115,441	430,336	1,685,105	392
<i>Sun Cellular</i> ⁽¹⁾	1,473,382	–	1,473,382	100
<i>Smart</i>	641,920	429,752	212,168	49
<i>Red Mobile</i> ⁽²⁾	139	584	(445)	(76)
Systemwide traffic volumes (in millions)				
Calls (in minutes) ⁽³⁾	25,559	17,742	7,817	44
Domestic	23,887	16,200	7,687	47
<i>Inbound</i>	822	700	122	17
<i>Outbound</i>	23,065	15,500	7,565	49
International	1,672	1,542	130	8
<i>Inbound</i>	1,474	1,445	29	2
<i>Outbound</i>	198	97	101	104
SMS/Data count (in hits) ⁽⁴⁾	260,484	161,477	99,007	61
Text messages	256,307	160,610	95,697	60
Domestic	255,893	160,314	95,579	60
Bucket-Priced/Unlimited	234,993	146,961	88,032	60
Standard	20,900	13,353	7,547	57
International	414	296	118	40
Value-Added Services	4,152	851	3,301	388
Financial Services	25	16	9	56

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

⁽²⁾ *Red Mobile postpaid was launched on March 17, 2011.*

⁽³⁾ *Includes DMPI's minutes for the first half of 2012.*

⁽⁴⁾ *Includes DMPI's SMS counts (except financial services) for the first half of 2012.*

Revenues generated from our prepaid cellular services amounted to Php43,876 million in the first half of 2012, an increase of Php2,823 million, or 7%, as compared with Php41,053 million in the same period in 2011. Prepaid cellular service revenues accounted for 84% and 91% of cellular voice and data revenues in the first half of 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php8,158 million in the first half of 2012, an increase of Php4,141 million, or 103%, as compared with Php4,017 million earned in the same period in 2011, and which accounted for 16% and 9% of cellular voice and data revenues in the first half of 2012 and 2011, respectively. The increase in revenues from our prepaid cellular services was primarily due to the inclusion of DMPI's revenues for the first half of 2012 and Smart's higher revenues from domestic bucket-priced/unlimited SMS and internet-based VAS, partially offset by a decline in Smart's revenues from domestic and international calls, and domestic standard SMS.

Revenues attributable to DMPI's prepaid and postpaid cellular services for the first half of 2012 amounted to Php5,376 million and Php3,543 million, and accounted for 60% and 40% of DMPI's cellular voice and data revenues, respectively.

Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php3,258 million, or 15%, to Php25,066 million in the first half of 2012 from Php21,808 million in the same period in 2011, primarily due to the inclusion of DMPI's revenues of Php5,006 million for the first half of 2012, partially offset by a decrease in Smart's domestic and international call revenues. Cellular voice services accounted for 47% of our cellular service revenues in each of the first half of 2012 and 2011.

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

	2012 ⁽¹⁾	2011 ⁽²⁾ (in millions)	Increase (Decrease)	
			Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php3,127	Php2,575	Php552	21
Outbound	13,694	10,872	2,822	26
	16,821	13,447	3,374	25
<i>International</i>				
Inbound	6,905	7,072	(167)	(2)
Outbound	1,340	1,289	51	4
	8,245	8,361	(116)	(1)
Total	Php25,066	Php21,808	Php3,258	15

⁽¹⁾ Includes DMPI's revenues for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

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

	(in millions)
Voice services:	
<i>Domestic</i>	Php4,218
Inbound	697
Outbound	3,521
<i>International</i>	788
Inbound	539
Outbound	249
Total	Php5,006

Domestic voice service revenues increased by Php3,374 million, or 25%, to Php16,821 million in the first half of 2012 from Php13,447 million in the same period in 2011, primarily due to an increase in domestic outbound and inbound voice service revenues of Php2,822 million and Php552 million, respectively.

Revenues from domestic outbound voice service increased by Php2,822 million, or 26%, to Php13,694 million in the first half of 2012 from Php10,872 million in the same period in 2011 mainly due to the inclusion of DMPI's domestic outbound voice service revenues of Php3,521 million for the first half of 2012, partially offset by Smart's lower yield on standard and bucket calls. Domestic outbound call volume of 23,065 million minutes, which includes DMPI's domestic outbound call volume of 6,317 million minutes, in the first half of 2012, increased by 7,565 million minutes, or 49%, from 15,500 million minutes in the same period in 2011.

Revenues from our domestic inbound voice service increased by Php552 million, or 21%, to Php3,127 million in the first half of 2012 from Php2,575 million in the same period in 2011 primarily due to the effect of the inclusion of DMPI's domestic inbound voice service revenues of Php697 million for the first half of 2012, partially offset by the decrease in Smart's domestic inbound voice revenues due to lower traffic from domestic fixed line and other mobile carriers. Domestic inbound call volumes of 822 million minutes, which includes DMPI's domestic inbound call volumes of 175 million minutes, in the first half of 2012, increased by 122 million minutes, or 17%, from 700 million minutes in the same period in 2011.

International voice service revenues decreased by Php116 million, or 1%, to Php8,245 million in the first half of 2012 from Php8,361 million in the same period in 2011 primarily due to lower international inbound voice service revenues by Php167 million, or 2%, to Php6,905 million in the first half of 2012 from Php7,072 million in the first half of 2011, partially offset by an increase in international outbound voice service revenues by Php51 million, or 4%, to Php1,340 million in the first half of 2012 from Php1,289 million in the same period in 2011. The decrease in international voice service revenues was primarily due to the unfavorable effect on Smart's dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.90 for the six months ended June 30, 2012 from Php43.52 for the six months ended June 30, 2011, and Smart's lower international inbound and outbound voice traffic and inbound termination rates, partially offset by the inclusion of DMPI's revenues of Php788 million for the first half of 2012. International inbound and outbound calls totaled 1,672 million minutes, which includes DMPI's international inbound and outbound call volume aggregating 252 million minutes, in the first half of 2012, an increase of 130 million minutes, or 8%, from 1,542 million minutes in the same period in 2011.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php3,706 million, or 16% to Php26,968 million in the first half of 2012 from Php23,262 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues of Php3,913 million for the first half of 2012, partially offset by a decrease in Smart's text messaging revenues. Cellular data services accounted for 50% of our cellular service revenues in each of the first half of 2012 and 2011.

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

	2012 ⁽¹⁾	2011 ⁽²⁾	Increase (Decrease)	
			Amount	%
	(in millions)			
Text messaging				
Domestic	Php22,669	Php19,860	Php2,809	14
<i>Bucket-Priced/Unlimited</i>	14,648	11,319	3,329	29
<i>Standard</i>	8,021	8,541	(520)	(6)
International	1,930	1,811	119	7
	<u>24,599</u>	<u>21,671</u>	<u>2,928</u>	<u>14</u>
Value-added services				
Internet-based ⁽³⁾	1,413	717	696	97
SMS-based ⁽⁵⁾	362	294	68	23
<i>Pasa Load/Give-a-load</i> ⁽⁴⁾	344	331	13	4
MMS-based ⁽⁶⁾	221	228	(7)	(3)
	<u>2,340</u>	<u>1,570</u>	<u>770</u>	<u>49</u>
Financial services	29	21	8	38
Total	<u>Php26,968</u>	<u>Php23,262</u>	<u>Php3,706</u>	<u>16</u>

⁽¹⁾ Includes DMPI's revenues for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

⁽³⁾ Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs.

⁽⁴⁾ Includes revenues from Pasa Load and Dial*SOS, net of allocated discounts. Pasa Load/Give-a-load is a service which allows prepaid and postpaid subscribers to transfer small denominations of air time credits to other prepaid subscribers. Dial*SOS allows Smart prepaid subscribers to borrow Php4 of load (Php3 on-net SMS plus Php1 air time) from Smart which will be deducted upon their next top-up.

⁽⁵⁾ Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.

⁽⁶⁾ Includes revenues from point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

The following table shows the breakdown of DMPI's cellular data service revenues for the six months ended June 30, 2012:

	(in millions)
Text messaging	
Domestic	Php3,392
<i>Bucket-Priced/Unlimited</i>	2,403
<i>Standard</i>	989
International	155
	<u>3,547</u>
Value-added services	
Internet-based	246
SMS-based	114
<i>Give-a-load</i>	4
MMS-based	2
	<u>366</u>
Total	<u>Php3,913</u>

Text messaging-related services contributed revenues of Php24,599 million in the first half of 2012, an increase of Php2,928 million, or 14%, as compared with Php21,671 million in the same period in 2011, and accounted for 91% and 93% of our total cellular data service revenues in the first half of 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from the inclusion of DMPI's revenues of Php3,547 million in the first half of 2012, partially offset by lower text messaging revenues from Smart due to declining SMS yields and the NTC-

mandated decrease in SMS interconnection charges. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php14,648 million in the first half of 2012, an increase of Php3,329 million, or 29%, as compared with Php11,319 million in the same period in 2011, primarily due to the inclusion of revenues from DMPI's bucket-priced/unlimited plans of Php2,403 million and an increase in Smart's revenues from bucket-priced/unlimited SMS offers. Bucket-priced/unlimited text messages of 234,993 million, which includes DMPI's bucket-priced/unlimited text messages of 21,703 million, in the first half of 2012, increased by 88,032 million, or 60%, from 146,961 million in the same period in 2011.

Standard text messaging revenues, which includes outbound standard SMS and domestic inbound SMS revenues, decreased by Php520 million, or 6%, to Php8,021 million in the first half of 2012 from Php8,541 million in the same period in 2011, primarily due to Smart's lower standard text messaging revenues on the back of increased usage of unlimited SMS, as well as the lower domestic inbound SMS revenues due to the NTC-mandated reduction in SMS interconnect charge, partially offset by the inclusion of DMPI's standard text messaging revenues of Php989 million in the first half of 2012. Standard text messages of 20,900 million, which includes DMPI's standard text messages of 5,232 million, in the first six months of 2012, increased by 7,547 million, or 57%, from 13,353 million in the same period in 2011.

International text messaging revenues amounted to Php1,930 million in the first half of 2012, an increase of Php119 million, or 7%, from Php1,811 million in the same period in 2011 mainly due to the inclusion of DMPI's revenues and the growth in Smart's international inbound SMS traffic, partially offset by the unfavorable effect of the appreciation of the peso relative to the U.S. dollar on international inbound text messaging revenues and a lower international outbound SMS traffic.

VAS contributed revenues of Php2,340 million in the first half of 2012, an increase of Php770 million, or 49%, as compared with Php1,570 million in the same period in 2011, primarily due to an increase in revenues from Smart's internet-based VAS, particularly from mobile internet browsing, and the inclusion of DMPI's VAS revenues of Php366 million.

Subscriber Base, ARPU and Churn Rates

As at June 30, 2012, our cellular subscribers, totaled 67,429,102, an increase of 19,594,569, or 41%, over the cellular subscriber base of 47,834,533 as at June 30, 2011. Our cellular prepaid subscriber base grew by 17,909,464, or 38%, to 65,313,661 as at June 30, 2012 from 47,404,197 as at June 30, 2011, and our cellular postpaid subscriber base increased by 1,685,105, or 392%, to 2,115,441 as at June 30, 2012 from 430,336 as at June 30, 2011. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 14,470,645 and 1,473,382, respectively, as at June 30, 2012, and the increase in Smart and *Talk 'N Text* subscribers. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at June 30, 2012 and 2011, respectively.

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

	2012	2011	Increase (Decrease)	
			Amount	%
Prepaid	3,520,869	2,189,764	1,331,105	61
<i>Smart Prepaid</i>	(285,320)	786,342	(1,071,662)	(136)
<i>Talk 'N Text</i>	3,525,725	810,117	2,715,608	335
<i>Red Mobile</i>	(876,085)	593,305	(1,469,390)	(248)
<i>Sun Cellular</i> ⁽¹⁾	1,156,549	–	1,156,549	100
Postpaid	211,604	8,761	202,843	2,315
<i>Smart</i>	91,435	8,177	83,258	1,018
<i>Red Mobile</i> ⁽²⁾	(124)	584	(708)	(121)
<i>Sun Cellular</i> ⁽¹⁾	120,293	–	120,293	100
Total	3,732,473	2,198,525	1,533,948	70

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

⁽²⁾ *Red Mobile postpaid was launched on March 17, 2011.*

Prepaid and postpaid subscribers reflected net activations of 3,520,869 and 211,604 subscribers, respectively, in the first half of 2012 as compared with net activations of 2,189,764 and 8,761 in the same period in 2011, respectively.

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

	2012	2011
	(in %)	
Prepaid		
<i>Smart Prepaid</i>	5.9	4.8
<i>Talk 'N Text</i>	4.9	5.4
<i>Red Mobile</i>	19.2	11.3
<i>Sun Cellular</i> ⁽¹⁾	10.5	–
Postpaid		
<i>Smart</i>	2.8	2.3
<i>Red Mobile</i> ⁽²⁾	10.3	–
<i>Sun Cellular</i> ⁽¹⁾	0.9	–

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

⁽²⁾ *Red Mobile postpaid was launched on March 17, 2011.*

For *Smart Prepaid* subscribers, the average monthly churn rate in the first half of 2012 and 2011 were 5.9% and 4.8%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 4.9% and 5.4% in the first half of 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile* prepaid subscribers were 19.2% and 11.3% in the first half of 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers was 10.5% in the first half of 2012.

The average monthly churn rate for *Smart*'s postpaid subscribers were 2.8% and 2.3% for the first half of 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile*'s and *Sun Cellular*'s postpaid subscribers were 10.3% and 0.9%, respectively, for the first half of 2012.



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

	Gross ⁽¹⁾		Increase (Decrease)		Net ⁽²⁾		Increase (Decrease)	
	2012	2011	Amount	%	2012	2011	Amount	%
Prepaid								
Smart Prepaid	Php175	Php204	(Php29)	(14)	Php153	Php179	(Php26)	(15)
Talk 'N Text	117	127	(10)	(8)	103	112	(9)	(8)
Red Mobile	56	37	19	51	49	33	16	48
Sun Cellular ⁽³⁾	75	–	75	100	65	–	65	100
Postpaid								
Smart Postpaid	1,290	1,624	(334)	(21)	1,265	1,567	(302)	(19)
Red Mobile ⁽⁴⁾	354	343	11	3	354	343	11	3
Sun Cellular ⁽³⁾	413	–	413	100	411	–	411	100

- (1) Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.
- (2) Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month. Net monthly ARPUs in 2011 have been restated to reflect the change in the presentation of our outbound revenues.
- (3) Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.
- (4) Red Mobile postpaid was launched on March 17, 2011.

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

	Prepaid								Postpaid					
	Smart Prepaid		Talk 'N Text		Red Mobile		Sun Cellular ⁽¹⁾		Smart		Red Mobile ⁽²⁾		Sun Cellular	
	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾	Gross ⁽³⁾	Net ⁽⁴⁾
2012														
First Quarter	178	155	118	104	46	40	75	64	1,302	1,279	339	339	414	411
Second Quarter	172	150	116	103	66	57	76	66	1,277	1,251	368	368	413	411
2011														
First Quarter	205	180	129	113	32	28	–	–	1,610	1,557	133	133	–	–
Second Quarter	203	179	126	111	43	38	–	–	1,638	1,576	413	413	–	–
Third Quarter	188	166	117	103	39	33	–	–	1,494	1,430	431	431	–	–
Fourth Quarter	194	166	124	109	39	34	–	–	1,452	1,480	355	355	–	–

- (1) Sun Cellular brand and its subscribers were acquired by PLDT when PLDT acquired a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.
- (2) Red Mobile postpaid was launched on March 17, 2011.
- (3) Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.
- (4) Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs in 2011 have been restated to reflect the change in the presentation of our outbound revenues.

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php1,061 million, or 33%, to Php4,249 million in the first half of 2012 from Php3,188 million in the same period in 2011, primarily due to the inclusion of DMPI's revenues for the first half of 2012 of Php932 million and a 10% growth in SBI's broadband subscriber base, partially offset by a decline in SBI's ARPU.

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,168,727 subscribers as at June 30, 2012, an increase of 677,027 subscribers, or 45%, as compared with 1,491,700 subscribers as at June 30, 2011, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 258,044 and 275,824, respectively, as at June 30, 2012, and 143,159, or 10%, increase in *SmartBro* subscribers. Our prepaid wireless broadband subscriber base increased by 395,133 subscribers, or 38%, to 1,442,623 subscribers as at June 30, 2012 from 1,047,490 subscribers as at June 30, 2011, while our postpaid wireless broadband subscriber base increased by 281,894 subscribers, or 63%, to 726,104 subscribers as at June 30, 2012 from 444,210 subscribers as at June 30, 2011.

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

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

SmartBro WiMAX service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, improved interference avoidance and higher data rates over a longer distance. *WiMAX* unlimited broadband usage is available under Plan 799 and Plan 999 with burst speeds of 512 kbps up to 1 Mbps, respectively.

DMPI's *Sun Broadband Wireless* service offers internet users an affordable high-speed broadband wireless service utilizing advanced 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* has plans and offerings ranging from Php350 to Php1,495 with speeds of up to 2 Mbps.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php40 million, or 5%, to Php800 million in the first half of 2012 from Php840 million in the same period in 2011, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS subscribers and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.90 for the six months ended June 30, 2012 from Php43.52 for the six months

ended June 30, 2011 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php585 million, or 98%, to Php1,181 million in the first half of 2012 as compared with Php596 million in the same period in 2011, primarily due to the increase in the average retail price and quantity of Smart's cellular handsets/SIM-packs issued for activation, as well as the effect of the inclusion of DMPI's non-service revenues of Php263 million for the first half of 2012.

Expenses

Expenses associated with our wireless business amounted to Php40,895 million, which includes DMPI's expenses of Php9,950 million, in the first half of 2012, an increase of Php12,254 million, or 43%, from Php28,641 million in the same period in 2011. A significant portion of this increase was attributable to higher expenses related to cost of sales, depreciation and amortization, selling and promotions, interconnection costs, repairs and maintenance, compensation and employee benefits, rent, and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 56% in the first half of 2012 and 2011, respectively.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Increase (Decrease)	
					Amount	%
(in millions)						
Depreciation and amortization	Php8,756	21	Php6,758	24	Php1,998	30
Interconnection costs	5,979	15	4,541	16	1,438	32
Rent	4,796	12	4,070	14	726	18
Repairs and maintenance	3,995	10	2,592	9	1,403	54
Cost of sales	3,959	10	1,764	6	2,195	124
Compensation and employee benefits	3,837	9	2,943	10	894	30
Selling and promotions	3,643	9	1,993	7	1,650	83
Professional and other contracted services	1,771	4	1,445	5	326	23
Taxes and licenses	1,273	3	795	3	478	60
Amortization of intangible assets	712	2	54	–	658	1,219
Communication, training and travel	675	2	482	2	193	40
Asset impairment	658	1	321	1	337	105
Insurance and security services	460	1	414	1	46	11
Other expenses	381	1	469	2	(88)	(19)
Total	Php40,895	100	Php28,641	100	Php12,254	43

⁽¹⁾ Includes DMPI's expenses for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the transfer of PCEV from Wireless to Others' business segment.

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

	<u>Amount</u> (in millions)	<u>%</u>
Depreciation and amortization	Php2,739	27
Interconnection costs	1,524	15
Repairs and maintenance	1,382	14
Cost of sales	1,160	12
Rent	805	8
Selling and promotions	774	8
Compensation and employee benefits	719	7
Taxes and licenses	291	3
Communication, training and travel	179	2
Professional and other contracted services	171	2
Asset impairment	82	1
Insurance and security services	46	-
Other expenses	78	1
Total	<u>Php9,950</u>	<u>100</u>

Depreciation and amortization charges increased by Php1,998 million, or 30%, to Php8,756 million primarily due to the inclusion of DMPI's depreciation and amortization expenses of Php2,739 million for the first half of 2012, partially offset by lower depreciation charges on cellular and broadband network facilities of Smart.

Interconnection costs increased by Php1,438 million, or 32%, to Php5,979 million primarily due to the inclusion of DMPI's interconnection costs of Php1,524 million for the first half of 2012, partially offset by a decrease in interconnection charges on Smart's domestic calls and SMS, and international roaming SMS.

Rent expenses increased by Php726 million, or 18%, to Php4,796 million primarily due to the inclusion of DMPI's rent expenses of Php805 million for the first half of 2012, increase in domestic fiber optic network, or DFON, and office building rental charges, partially offset by a decrease in site, satellite, leased circuit and pole rental charges. In the six months ended June 30, 2012, we had 10,509 cell sites, 13,149 cellular/mobile broadband base stations and 2,806 fixed wireless broadband-enabled base stations, which includes DMPI's 4,421 cell sites and 2,241 cellular/mobile broadband base stations, as compared with 6,055 cell sites, 10,442 cellular/mobile broadband base stations and 2,684 fixed wireless broadband-enabled base stations in the same period in 2011.

Repairs and maintenance expenses increased by Php1,403 million, or 54%, to Php3,995 million mainly due to the inclusion of DMPI's repairs and maintenance expense of Php1,382 million for the first half of 2012, higher site and office electricity charges and fuel costs for power generation, partly offset by lower maintenance costs on cellular and broadband network facilities.

Cost of sales increased by Php2,195 million, or 124%, to Php3,959 million primarily due to the inclusion of DMPI's cost of sales of Php1,160 million for the first half of 2012 and higher average cost and quantity of handsets and SIM-packs issued for activation purposes, partly offset by lower quantity and average cost of broadband modems sold, as well as lower broadband and cellular retention costs.

Compensation and employee benefits expenses increased by Php894 million, or 30%, to Php3,837 million primarily due to the inclusion of DMPI's compensation and employee benefit expenses of Php719 million for the first half of 2012, as well as higher salaries and employee benefits, and LTIP costs, partially offset by lower MRP costs and provision for pension benefits of Smart. Employee headcount increased to 8,131 as at June 30, 2012 as compared with 5,069 as at June 30, 2011, primarily due to the inclusion of DMPI's headcount of 2,875 as at June 30, 2012.

Selling and promotion expenses increased by Php1,650 million, or 83%, to Php3,643 million primarily due to the inclusion of DMPI's selling and promotions expense of Php774 million for the first half of 2012 and higher spending on commissions, advertising and promotional campaigns.

Professional and other contracted service fees increased by Php326 million, or 23%, to Php1,771 million primarily due to the inclusion of DMPI's professional and other contracted service fees of Php171 million for the first half of 2012, the increase in consultancy, contracted service, customer relationship management service, market research, legal fees and outsourced service costs, partly offset by lower technical service, bill printing and other professional fees.

Taxes and licenses increased by Php478 million, or 60%, to Php1,273 million primarily due to the inclusion of DMPI's taxes and licenses of Php291 million and higher business-related taxes, and registration and license fees for the first half of 2012.

Amortization of intangible assets increased by Php658 million to Php712 million primarily due to the amortization of intangible assets related to customer list and franchise of DMPI in the first half of 2012.

Communication, training and travel expenses increased by Php193 million, or 40%, to Php675 million primarily due to the inclusion of DMPI's communication, training and travel expenses of Php179 million for the first half of 2012 and higher expenses related to training, hauling, fuel consumption for vehicles and communication, partially offset by lower courier charges and local travel expenses.

Asset impairment increased by Php337 million, or 105%, to Php658 million primarily due to higher provision for inventory obsolescence covering slow-moving cellular handsets and broadband modems, as well as higher provision for doubtful accounts, and the inclusion of DMPI's provision for uncollectible receivables of Php82 million for the first half of 2012.

Insurance and security services increased by Php46 million, or 11%, to Php460 million primarily due to the inclusion of DMPI's insurance and security expenses of Php46 million for the first half of 2012, and higher insurance and bond premiums, partially offset by Smart's lower expenses on security services.

Other expenses decreased by Php88 million, or 19%, to Php381 million primarily due to lower various business and operational-related expenses, partly offset by the inclusion of DMPI's other operational expenses of Php78 million for the first half of 2012.

Other Income (Expenses)

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

	2012	2011 ⁽¹⁾	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Foreign exchange gains – net	Php1,099	Php284	Php815	287
Interest income	296	341	(45)	(13)
Equity share in net losses of associates	(25)	(20)	(5)	25
Loss on derivative financial instruments – net	(38)	–	(38)	(100)
Financing costs – net	(1,370)	(1,367)	(3)	–
Others	420	170	250	147
Total	Php382	(Php592)	Php974	165

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

Our wireless business' other income amounted to Php382 million, which includes other income from DMPI amounting to Php118 million, in the first half of 2012, a change of Php974 million, or 165%, as against other expenses of Php592 million in the same period in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php815 million on account of revaluation of foreign currency-denominated assets and liabilities due to the appreciation of the Philippine peso to the U.S. dollar, and the inclusion of gains on revaluation of dollar-denominated net liabilities of DMPI of Php495 million for the first half of 2012; (ii) an increase in other income by Php250 million mainly due to the inclusion of DMPI's other income of Php14 million, higher outsourcing income and recovery of prior year's provision, partially offset by lower rental income; (iii) higher net financing costs by Php3 million primarily due to the inclusion of DMPI's financing costs of Php361 million for the first half of 2012, higher accretion on financial liabilities and financing charges, partly offset by the increase in capitalized interest, and lower interest on loans and other related items of Smart; (iv) an increase in equity share in net losses of associates by Php5 million; (v) net loss on DMPI's derivative financial instruments of Php38 million in the first half of 2012; and (vi) a decrease in interest income by Php45 million mainly due to lower average interest rates, lower level and shorter average tenor of U.S. dollar and peso placements in the first half of 2012 and the appreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax increased by Php290 million, or 5%, to Php5,670 million in the first half of 2012 from Php5,380 million in the same period in 2011 primarily due to higher taxable income. The effective tax rate for our wireless business was 30% and 25% in the first half of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business' net income decreased by Php2,810 million, or 17%, to Php13,452 million, including a net income from DMPI of Php373 million, in the first half of 2012, from Php16,262 million recorded in the same period in 2011.

EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php838 million, or 3%, to Php28,208 million in the first half of 2012, which includes EBITDA from DMPI of Php3,061 million, from Php29,046 million in the same period in 2011.

Core Income

Our wireless business' core income decreased by Php3,414 million, or 21%, to Php12,703 million in the first half of 2012, which includes core income from DMPI amounting to Php53 million for the first half of 2012, from Php16,117 million in the same period in 2011 on account of an increase in wireless-related expenses and higher provision for income tax, partially offset by higher wireless revenues and a decrease in other expenses.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php31,108 million, including revenues from Digitel of Php2,067 million, in the first half of 2012, an increase of Php1,493 million, or 5%, from Php29,615 million in the same period in 2011.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Service Revenues:						
Local exchange	Php7,932	26	Php7,457	25	Php475	6
International long distance	5,286	17	5,568	19	(282)	(5)
National long distance	2,677	9	2,862	10	(185)	(6)
Data and other network	13,199	43	11,669	39	1,530	13
Miscellaneous	1,315	4	1,494	5	(179)	(12)
	30,409	99	29,050	98	1,359	5
Non-Service Revenues:						
Sale of computers, phone units and SIM cards	333	1	565	2	(232)	(41)
Total Fixed Line Revenues	Php30,742	100	Php29,615	100	Php1,127	4

⁽¹⁾ Includes Digitel's revenues for the first half of 2012.

⁽²⁾ The 2011 revenues have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business.

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

	Amount	%
	(in millions)	
Fixed Line Services:		
Service Revenues:		
Local exchange	Php515	30
International long distance	337	20
National long distance	190	11
Data and other network	659	39
Total Fixed Line Revenues	Php1,701	100

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,359 million, or 5%, to Php30,409 million in the first half of 2012, which includes service revenues from Digitel amounting to Php1,701 million for the first half of 2012, from Php29,050 million in the same period in 2011 due to an increase in the revenue of our data and other network, and local exchange services, partially offset by a decrease in international long distance, national long distance and miscellaneous services.

Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the six months ended June 30, 2012 and 2011:

	2012 ⁽¹⁾	2011 ⁽²⁾	Increase	
			Amount	%
Total local exchange service revenues (in millions)	Php7,932	Php7,457	Php475	6
Number of fixed line subscribers	2,133,478	1,856,890	276,588	15
Postpaid	2,011,565	1,754,165	257,400	15
Prepaid	121,913	102,725	19,188	19
Number of fixed line employees	7,972	7,410	562	8
Number of fixed line subscribers per employee	268	251	17	7

⁽¹⁾ Includes Digitel's revenues, subscriber base and employee headcount as at and for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

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

Total local exchange service revenues (in millions)	Php515
Number of fixed line subscribers	282,879
Postpaid	235,394
Prepaid	47,485
Number of fixed line employees	787
Number of fixed line subscribers per employee	359

Revenues from our local exchange service increased by Php475 million, or 6%, to Php7,932 million in the first half of 2012 from Php7,457 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues of Php515 million for the first half of 2012 and the increase in postpaid wired and *PLP* lines, partially offset by a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 26% in each of the first half of 2012 and 2011.

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

International Long Distance Service

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

	2012 ⁽¹⁾	2011 ⁽²⁾	Increase (Decrease)	
			Amount	%
Total international long distance service revenues (in millions)	Php5,286	Php5,568	(Php282)	(5)
Inbound	4,632	5,023	(391)	(8)
Outbound	654	545	109	20
International call volumes (in million minutes, except call ratio)	1,022	951	71	7
Inbound	805	865	(60)	(7)
Outbound	217	86	131	152
Inbound-outbound call ratio	3.7:1	10.1:1	-	-

⁽¹⁾ Includes Digitel's revenues and call volumes for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

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

Total international long distance service revenues (in millions)	Php337
Inbound	171
Outbound	166
International call volumes (in million minutes, except call ratio)	172
Inbound	34
Outbound	138
Inbound-outbound call ratio	0.2:1

Our total international long distance service revenues decreased by Php282 million, or 5%, to Php5,286 million in the first half of 2012, which includes revenues from Digitel amounting to Php337 million, from Php5,568 million in the same period in 2011, primarily due to the decrease in PLDT's average settlement and collection rates, and call volumes, as well as the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.90 for the six months ended June 30, 2012 from Php43.52 for the six months ended June 30, 2011, partially offset by the inclusion of Digitel's international long distance service revenues and call volumes in the first half of 2012. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 17% and 19% in the first half of 2012 and 2011, respectively.

Our revenues from inbound international long distance service decreased by Php391 million, or 8%, to Php4,632 million in the first half of 2012 from Php5,023 million in the same period in 2011 primarily due to the decrease in average settlement rate, as well as the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by the inclusion of Digitel's inbound international long distance service revenues of Php171 million and inbound call volumes of 34 million minutes for the first half of 2012.

Our revenues from outbound international long distance service increased by Php109 million, or 20%, to Php654 million in the first half of 2012 from Php545 million in the same period in 2011, primarily due to the inclusion of Digitel's revenues from outbound international long distance service of Php166 million, partially offset by the decline in average collection rate in dollar terms and the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.90 for the six months ended June 30, 2012 from Php43.52 for the six months ended June 30, 2011, resulting in a decrease in the average billing rates to Php43.06 in the first half of 2012 from Php43.62 in the same period in 2011.

National Long Distance Service

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

	2012 ⁽¹⁾	2011 ⁽²⁾	Decrease	
			Amount	%
Total national long distance service revenues (in millions)	Php2,677	Php2,862	(Php185)	(6)
National long distance call volumes (in million minutes)	488	558	(70)	(13)

⁽¹⁾ Includes Digitel's revenues of Php190 million and call volumes of 24 million minutes for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues.

Our national long distance service revenues decreased by Php185 million, or 6%, to Php2,677 million in the first half of 2012 from Php2,862 million in the same period in 2011, primarily due to a

decrease in call volumes, partially offset by the inclusion of Digitel's national long distance service revenues for the first half of 2012 and an increase in the average revenue per minute of our national long distance services due to the cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 9% and 10% in the first half of 2012 and 2011, respectively.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the six months ended June 30, 2012 and 2011:

	2012 ⁽¹⁾	2011 ⁽²⁾	Increase (Decrease)	
			Amount	%
Data and other network service revenues (in millions)	Php13,199	Php11,669	Php1,530	13
Domestic	9,361	8,088	1,273	16
<i>Broadband</i>	5,762	4,755	1,007	21
DSL	5,638	4,616	1,022	22
WeRoam	124	139	(15)	(11)
<i>Leased Lines and Others</i>	3,599	3,333	266	8
International				
<i>Leased Lines and Others</i>	3,251	3,033	218	7
Vitro™ Data Center	587	548	39	7
Subscriber base				
<i>Broadband</i>	892,959	720,519	172,440	24
DSL	876,073	698,921	177,152	25
WeRoam	16,886	21,598	(4,712)	(22)
SWUP	20,959	18,983	1,976	10

⁽¹⁾ Includes Digitel's revenues and subscriber base as at and for the six months ended June 30, 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business.

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

Data and other network service revenues (in millions)	Php659
Domestic	645
<i>Broadband – Digitel's DSL</i>	405
<i>Leased Lines and Others</i>	240
International	
<i>Leased Lines and Others</i>	14
DSL Subscriber base	101,532

Our data and other network services posted revenues of Php13,199 million, which includes revenues from Digitel of Php659 million, in the first half of 2012, an increase of Php1,530 million, or 13%, from Php11,669 million in the same period in 2011, primarily due to higher revenues from *PLDT DSL*, the inclusion of Digitel's data and other network service revenues of Php659 million for the first half of 2012, an increase in international data revenues primarily due to higher revenues from i-Gate and Fibernet, and an increase in domestic leased line revenues resulting from the higher revenue contribution of internet protocol-virtual private network, or IP-VPN, and Metro Ethernet. The percentage contribution of this service segment to our fixed line service revenues accounted for 44% and 40% in the first half of 2012 and 2011, respectively.

Domestic

Domestic data services contributed Php9,361 million in the first half of 2012, an increase of Php1,273 million, or 16%, as compared with Php8,088 million in the same period in 2011 mainly due to higher DSL revenues and the inclusion of Digitel's revenues of Php645 million for the first half of 2012, higher IP-VPN, Metro Ethernet and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower traditional leased line revenues on Diginet. The percentage contribution of domestic data service revenues to total data and other network services accounted for 71% and 69% in the first half of 2012 and 2011.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies).

Broadband data revenues amounted to Php5,762 million, including Digitel's broadband data revenues of Php405 million, in the first half of 2012, an increase of Php1,007 million, or 21%, from Php4,755 million in the same period in 2011, primarily due to the higher revenue contribution of DSL which contributed revenues of Php5,638 million in the first half of 2012 from Php4,616 million in the same period in 2011 as a result of the increase in the number of subscribers by 25% to 876,073 subscribers, including Digitel's DSL subscriber base of 101,532, as at June 30, 2012, from 698,921 subscribers in the same period in 2011. DSL revenues accounted for 43% and 40% of total data and other network service revenues in the first half of 2012 and 2011, respectively.

WeRoam revenues amounted to Php124 million in the first half of 2012, a decrease of Php15 million, or 11%, from Php139 million in the same period in 2011 as a result of a decrease in subscriber base by 22% to 16,886 subscribers in the first half of 2012 from 21,598 subscribers in the same period in 2011.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at June 30, 2012, *SWUP* has a total subscriber base of 20,959 up by 10% from 18,983 subscribers in the same period in 2011. Leased lines and other data revenues amounted to Php3,599 million in the first half of 2012, an increase of Php266 million, or 8%, from Php3,333 million in the same period in 2011, primarily due to the inclusion of Digitel's leased line data revenues of Php240 million for the first half of 2012, and higher revenues from IP-VPN, Metro Ethernet and *Shops.Work*, partially offset by lower Diginet revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services accounted for 27% and 28% in the first half of 2012 and 2011, respectively.

International

Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php218 million, or 7%, to Php3,251 million in the first half of 2012 from Php3,033 million in the same period in 2011, primarily due to higher i-Gate, inland-cable lease and Fibernet revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php14 million for the first half of 2012, as well as an increase in revenues from various global service providers, partially offset by the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 25% and 26% in the first half of 2012 and 2011, respectively.

Vitro™ Data Center

Vitro™ data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php39 million, or 7%, to Php587 million in the first half of 2012 from Php548 million in the same period in 2011 mainly due to higher co-location and managed services.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues decreased by Php179 million, or 12%, to Php1,315 million in the first half of 2012 from Php1,494 million in the same period in 2011 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of ePLDT's 75% interest in Digital Paradise on April 1, 2011 and 57.51% interest in Level Up! on July 11, 2011, as well as lower rental fees, partially offset by the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), the revenue contribution of PGNL, the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, and distributes these media content via syndication and via its international linear channels, and higher facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 4% and 5% in the first half of 2012 and 2011, respectively.

Non-service Revenues

Non-service revenues decreased by Php232 million, or 41%, to Php333 million in the first half of 2012 from Php565 million in the same period in 2011, primarily due to the lower sale of several managed PABX and *OnCall* solution, hardware and software licenses, and *PLP* units, as well as lower computer-bundled sales, partially offset by the sale of *Telpad* units.

Expenses

Expenses related to our fixed line business totaled Php27,347 million, which includes expenses from Digitel amounting to Php1,796 million, in the first half of 2012, an increase of Php3,198 million, or 13%, as compared with Php24,149 million in the same period in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, depreciation and amortization, professional and other contracted services, taxes and licenses, and communication, training and travel, partly offset by lower expenses related to interconnection costs, costs of sales, amortization of intangible assets, selling and promotions, and other operating expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 88% and 82% in the first half of 2012 and 2011, respectively.

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

	2012 ⁽¹⁾	%	2011 ⁽²⁾	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits	Php7,395	27	Php5,223	22	Php2,172	42
Depreciation and amortization	6,533	24	6,157	25	376	6
Interconnection costs	3,904	14	4,278	18	(374)	(9)
Repairs and maintenance	2,701	10	2,243	9	458	20
Professional and other contracted services	2,112	8	1,801	7	311	17
Rent	1,399	5	1,393	6	6	-
Selling and promotions	671	2	680	3	(9)	(1)
Taxes and licenses	594	2	363	2	231	64
Asset impairment	526	2	488	2	38	8
Cost of sales	524	2	643	3	(119)	(19)
Communication, training and travel	424	2	317	1	107	34
Insurance and security services	297	1	241	1	56	23
Amortization of intangible assets	-	-	16	-	(16)	(100)
Other expenses	267	1	306	1	(39)	(13)
Total	Php27,347	100	Php24,149	100	Php3,198	13

⁽¹⁾ Includes Digitel's expenses for the first half of 2012.

⁽²⁾ The 2011 results have been restated to reflect the change in the presentation of our outbound revenues and the inclusion of the ICT business group in our fixed line business.

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

	Amount	%
	(in millions)	
Compensation and employee benefits	Php563	31
Repairs and maintenance	300	17
Depreciation and amortization	267	15
Interconnection costs	206	11
Rent	117	7
Professional and other contracted services	95	5
Taxes and licenses	56	3
Cost of Sales	47	3
Communication, training and travel	44	2
Selling and promotions	31	2
Insurance and security services	27	2
Asset impairment	27	1
Other expenses	16	1
Total	Php1,796	100

Compensation and employee benefits expenses increased by Php2,172 million, or 42%, to Php7,395 million primarily due to higher MRP costs, salaries and employee benefits, LTIP costs, as well as the effect of the inclusion of Digitel's compensation and employee benefits expenses of Php563 million for the first half of 2012, partially offset by lower provision for pension costs. Employee headcount increased to 10,746 in the first half of 2012 as compared with 9,770 in the same period in 2011 mainly due to inclusion of Digitel's headcount of 787 and increase in the number of employee headcount by iPlus, partially offset by the decrease in PLDT's headcount as a result of the MRP.

Depreciation and amortization charges increased by Php376 million, or 6%, to Php6,533 million due to the inclusion of Digitel's depreciation and amortization expenses of Php267 million for the first half of 2012, as well as a higher depreciable asset base.

Interconnection costs decreased by Php374 million, or 9%, to Php3,904 million primarily due to lower international and national long distance interconnection/settlement costs as a result of lower international received paid and domestic sent paid calls that terminated to other domestic carriers, and lower settlement costs for data and other network services particularly Fibernet and Infonet, partially offset by the inclusion of Digitel's interconnection costs of Php206 million.

Repairs and maintenance expenses increased by Php458 million, or 20%, to Php2,701 million primarily due to the inclusion of Digitel's repairs and maintenance expenses of Php300 million for the first half of 2012, higher repairs and maintenance costs for buildings, central office/telecoms equipment and IT software and hardware, partially offset by lower office electricity charges, and repairs and maintenance costs of cable and wire facilities.

Professional and other contracted service expenses increased by Php311 million, or 17%, to Php2,112 million primarily due to higher consultancy and contracted services, technical service, payment facility and management fees, as well as the effect of the inclusion of Digitel's professional and other contracted fees of Php95 million for the first half of 2012, partially offset by lower bill printing fees, outsourced costs, and transfer agents' fees.

Rent expenses increased by Php6 million to Php1,399 million primarily due to the effect of the inclusion of Digitel's rent expenses of Php117 million for the first half of 2012, as well as higher international leased circuits, and satellite rental charges, partially offset by lower domestic leased circuits, office building, telecom equipment, and site rental charges.

Selling and promotion expenses decreased by Php9 million, or 1%, to Php671 million primarily due to lower advertising and commission expenses, partially offset by the effect of the inclusion of Digitel's selling and promotions expenses of Php31 million for the first half of 2012, as well as higher public relations expense.

Asset impairment increased by Php38 million, or 8%, to Php526 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables of Php27 million for the first half of 2012.

Cost of sales decreased by Php119 million, or 19%, to Php524 million in primarily due to lower sales of several managed PABX and *OnCall* solutions, hardware and software licenses, and *PLP* units, partially offset by the inclusion of Digitel's cost of sales of Php47 million, and the sale of *Telpad* units.

Communication, training and travel expenses increased by Php107 million, or 34%, to Php424 million mainly due to higher mailing and courier charges, fuel consumption and foreign and local travel,

and the effect of the inclusion of Digitel's communication, training and travel expenses of Php44 million for the first half of 2012, partially offset by the decrease in communication charges.

Insurance and security services increased by Php56 million, or 23%, to Php297 million primarily due to higher security services, and insurance and bond premiums, and the effect of the inclusion of Digitel's insurance and security expenses of Php27 million for the first half of 2012.

Amortization of intangible assets amounted to Php16 million in the first half of 2011 relating to the amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in 2011.

Other expenses decreased by Php39 million, or 13%, to Php267 million primarily due to lower various business and operational-related expenses, partially offset by the inclusion of Digitel's other expenses of Php16 million.

Other Expenses

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

	2012	2011	Change	
			Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains – net	Php507	Php147	Php360	245
Interest income	482	253	229	91
Equity share in net earnings of associates	113	102	11	11
Gains (losses) on derivative financial instruments – net	(399)	484	(883)	(182)
Financing costs – net	(2,162)	(1,783)	(379)	21
Others	774	501	273	54
Total	(Php685)	(Php296)	(Php389)	131

Our fixed line business' other expenses amounted to Php685 million in the first half of 2012, an increase of Php389 million, or 131%, from Php296 million in the same period in 2011. The increase was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php399 million in the first half of 2012 as against net gains on derivative financial instruments of Php484 million in the same period in 2011 due to the effect of narrower dollar and peso interest rate differentials and higher level of appreciation of the Philippine peso to the U.S. dollar; (ii) an increase in net financing costs by Php379 million due to higher interest expense on loans and related items, higher financing charges, and the effect of the inclusion of Digitel's financing costs of Php171 million in the first half of 2012; (iii) an increase in other income by Php273 million mainly due to the gain on disposal of fixed assets and income from consultancy, partially offset by lower pension benefit income recognized by PLDT; (iv) increase in equity share in net earnings of associates and joint ventures by Php11 million mainly due to the increase in share in net earnings of Philweb Corporation, or Philweb; (v) an increase in interest income by Php229 million due to a higher average level of investments, partially offset by lower interest rates, shorter average tenor of placements and the impact of the appreciation of the Philippine peso on dollar placements; and (vi) increase in net foreign exchange gains by Php360 million due to the inclusion of Digitel's foreign exchange gains of Php100 million in the first half of 2012 and on account of foreign exchange revaluation of foreign currency-denominated assets and liabilities due to the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar.

Provision for Income Tax

Provision for income tax, including Digitel's provision for income tax of Php81 million, amounted to Php629 million in the first half of 2012, a decrease of Php766 million, or 55%, as

compared with Php1,395 million in the same period in 2011, primarily due to lower taxable income. The effective tax rates of our fixed line business were 23% and 27% in the first half of 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php2,081 million in the first half of 2012, decreased by Php1,694 million, or 45%, as compared with Php3,775 million in the same period in 2011.

EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php1,711 million, or 15%, to Php9,928 million in the first half of 2012, which includes EBITDA from Digitel of Php172 million, from Php11,639 million in the same period in 2011.

Core Income

Our fixed line business' core income decreased by Php1,260 million, or 40%, to Php1,922 million in the first half of 2012, which includes core income from Digitel of negative Php64 million, from Php3,182 million in the same period in 2011, primarily as a result of increases in fixed line's operating and other expenses, partially offset by higher fixed line revenues and lower provision for income tax.

Business Process Outsourcing

Revenues

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

Our BPO business generated revenues of Php4,836 million in the first half of 2012, an increase of Php710 million, or 17%, as compared with Php4,126 million in the same period in 2011. This increase was primarily due to higher revenue contributions from our knowledge processing solutions and customer relationship management businesses.

The following table summarizes our total revenues from our BPO business for the six months ended June 30, 2012 and 2011 by service segment:

	<u>2012</u>	<u>%</u>	<u>2011⁽¹⁾</u>	<u>%</u>	<u>Increase</u>	
					<u>Amount</u>	<u>%</u>
	<u>(in millions)</u>					
Service Revenues:						
Knowledge processing solutions	Php3,247	67	Php2,744	67	Php503	18
Customer relationship management	1,589	33	1,382	33	207	15
Total BPO Revenues	<u>Php4,836</u>	<u>100</u>	<u>Php4,126</u>	<u>100</u>	<u>Php710</u>	<u>17</u>

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

Service Revenues

Service revenues generated by our BPO business amounted to Php4,836 million in the first half of 2012, an increase of Php710 million, or 17%, as compared with Php4,126 million in the same period in 2011, primarily as a result of the continued growth in our knowledge processing solutions and customer relationship management businesses.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php3,247 million in the first half of 2012, an increase of Php503 million, or 18%, from Php2,744 million in the same period in 2011. Dollar-denominated revenues increased by 20% mainly due to higher content services and additional revenues as a result of the inclusion of Laserwords Private Ltd., or Laserwords, in the consolidation effective November 1, 2011, partially offset by the sale of our medical transcription business on September 26, 2011 and the appreciation of the Philippine peso to the U.S. dollar by approximately 2%. Knowledge processing solutions business revenues accounted for 67% of total revenues of our BPO business in each of the first half of 2012 and 2011.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In the first half of 2012, SPi CRM changed its functional currency from Philippine peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php207 million, or 15%, to Php1,589 million in the first half of 2012 from Php1,382 million in the same period in 2011, primarily due to higher domestic sales by 12%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar and lower revenues from Infocom due to transfer of part of its services to PLDT. In total, we own and operate 6,118 seats with an average of 3,510 customer service representatives, or CSRs, in the first half of 2012, as compared with 5,986 seats with an average of 3,610 CSRs in the same period in 2011. SPi CRM has six customer relationship management sites as at June 30, 2012 and 2011. Customer relationship management business revenues accounted for 33% of total revenues of our BPO business in each of the first half of 2012 and 2011.

Expenses

Expenses associated with our BPO business totaled Php4,153 million in the first half of 2012, an increase of Php452 million, or 12%, as compared with Php3,701 million in the same period in 2011, primarily due to higher expenses related to compensation and employee benefits, professional and other contracted services, depreciation and amortization, repairs and maintenance, communication, training and travel, selling and promotions, taxes and licenses, and rent, partially offset by lower expenses related to asset impairment and amortization of intangible assets. As a percentage of our total BPO revenues, expenses related to our BPO business accounted for 86% and 90% in the first half of 2012 and 2011, respectively.

The following table shows the breakdown of our total BPO-related expenses for the six months ended June 30, 2012 and 2011 and the percentage of each expense item to the total:

	2012	%	2011 ⁽¹⁾	%	Increase (Decrease)	
					Amount	%
	(in millions)					
Compensation and employee benefits	Php2,742	66	Php2,491	67	Php251	10
Professional and other contracted services	284	7	227	6	57	25
Rent	236	6	222	6	14	6
Depreciation and amortization	235	5	203	6	32	16
Repairs and maintenance	212	5	182	5	30	16
Communication, training and travel	191	4	165	4	26	16
Amortization of intangible assets	73	2	74	2	(1)	(1)
Selling and promotions	40	1	17	–	23	135
Taxes and licenses	39	1	20	1	19	95
Insurance and security services	30	1	29	1	1	3
Asset impairment	1	–	3	–	(2)	(67)
Other expenses	70	2	68	2	2	3
Total	Php4,153	100	Php3,701	100	Php452	12

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

Compensation and employee benefits increased by Php251 million, or 10%, to Php2,742 million mainly due to higher salaries and benefits, LTIP and provision for pension costs, partially offset by a decline in MRP costs. BPO employee headcount increased by 1,825, or 13%, to 16,313 in the first half of 2012 as compared with 14,488 in the same period in 2011.

Professional and other contracted services increased by Php57 million, or 25%, to Php284 million primarily due to higher contracted service fees, as well as professional fees for services rendered on the purchase of Laserwords in November 2011.

Rent expenses increased by Php14 million, or 6%, to Php236 million primarily due to higher office building rental charges, partially offset by lower site rental charges.

Depreciation and amortization increased by Php32 million, or 16%, to Php235 million primarily due to higher depreciable asset base.

Repairs and maintenance expenses increased by Php30 million, or 16%, to Php212 million primarily due to higher office and site electricity charges, and repairs and maintenance costs for vehicles, furniture and other work equipment, partially offset by lower repairs and maintenance cost of IT software and site facilities.

Communication, training and travel expenses increased by Php26 million, or 16%, to Php191 million primarily due to higher travel and training expenses, and mailing and courier charges, partially offset by lower communication expenses.

Amortization of intangible assets decreased by Php1 million, or 1%, to Php73 million primarily due to lower amortization of intangible assets in the first half of 2012.

Selling and promotions expenses increased by Php23 million, or 135%, to Php40 million primarily due to higher spending on advertising and promotions, as well as higher commissions expenses.

Taxes and licenses increased by Php19 million, or 95% to Php39 million due to higher business-related taxes in the first half of 2012.

Insurance and security services increased by Php1 million, or 3%, to Php30 million primarily due to higher expenses on insurance and bond premiums, partially offset by lower expenses on security services.

Asset impairment decreased by Php2 million, or 67%, to Php1 million primarily due to lower provision for uncollectible receivables.

Other expenses increased by Php2 million, or 3%, to Php70 million mainly due to higher various business operational-related costs.

Other Income (Expenses)

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

	2012	2011 ⁽¹⁾	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Gains on derivative financial instruments – net	Php34	Php–	Php34	100
Interest income	7	9	(2)	(22)
Financing costs	(13)	(28)	15	(54)
Foreign exchange losses – net	(41)	(5)	(36)	720
Others	3	25	(22)	(88)
Total	(Php10)	Php1	(Php11)	(1,100)

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

Our BPO business' other expenses amounted to Php10 million in the first half of 2012, a change of Php11 million as against other income of Php1 million in the same period in 2011, primarily due to the combined effects of the following: (i) increase in net foreign exchange losses by Php36 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar in the first half of 2012; (ii) a decrease in other income by Php22 million mainly due to the effect of adjustments on derecognition of liabilities in 2011; (iii) a decrease in interest income by Php2 million due to collection of notes receivable in 2011; (iv) a decrease in financing costs by Php15 million due to lower accretion on contingent liabilities from our knowledge processing solutions business; and (v) net gains on derivative financial instruments of Php34 million in the first half of 2012 due to mark-to-market gain from forward foreign exchange contracts.

Provision for Income Tax

Provision for income tax amounted to Php181 million, an increase of Php161 million, in the first half of 2012 from Php20 million in the same period in 2011, primarily due to higher taxable income in the first half of 2012, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords for the first half of 2012.

Net Income

As a result of the foregoing, our BPO business registered a net income of Php492 million, an increase of Php86 million, or 21%, in the first half of 2012 from Php406 million in the same period in 2011.

EBITDA

As a result of the foregoing, our BPO business' EBITDA increased by Php286 million, or 41%, to Php991 million in the first half of 2012 from Php705 million in the same period in 2011.

Core Income

Our BPO business' core income amounted to Php497 million in the first half of 2012, an increase of Php84 million, or 20%, as compared with Php413 million in the same period in 2011 mainly as a result of an increase in BPO revenues, partially offset by an increase in BPO-related expenses, and higher provision for income tax and other expenses.

Others

Expenses

Expenses associated with our other business segment totaled Php11 million in the first half of 2012, an increase of Php4 million, or 57%, as compared with Php7 million in the same period in 2011, primarily due to PCEV's higher professional fees and other operating expenses.

Other Income

The following table summarizes the breakdown of other income for other business segment for the six months ended June 30, 2012 and 2011:

	2012	2011 ⁽¹⁾	Change	
			Amount	%
			(in millions)	
Other Income (Expenses):				
Equity share in net earnings of associates	Php1,223	Php757	Php466	62
Interest income	9	42	(33)	(79)
Others	2,229	64	2,165	3,383
Total	Php3,461	Php863	Php2,598	301

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

Other income increased by Php2,598 million, or 301%, to Php3,461 million in the first half of 2012 from Php863 million in the same period in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php2,165 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon of Php2,012 million and preferred dividends from Beacon of Php191 million; (ii) an increase in equity share in net earnings of associates by Php466 million mainly due to the increase in PCEV's indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; and (iii) a decrease in interest income by Php33 million as a result of lower average level of temporary cash investments by our PCEV business.

For the six months ended June 30, 2012, Meralco's reported and core income amounted to Php9,752 million and Php9,023 million, respectively, as compared with Php6,091 million and Php7,822 million, respectively, in the same period in 2011. These results were due primarily to increases in billed customers and electricity sales volume, as well as higher generation charges, partially offset by lower distribution rates in the first half of 2012 as compared with the same period in 2011. PCEV's share in the reported and core income of Meralco, including its share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,224 million and Php1,317 million, respectively, in the first half of 2012, and Php757 million and Php1,215 million, respectively, in the same period in 2011. PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares and 68.8 million shares were transferred on May 12, 2010 and October 25, 2011, respectively, to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010.

Net Income

As a result of the foregoing, our other business segment registered a net income of Php3,446 million, an increase of Php2,593 million, or 304%, in the first half of 2012 from Php853 million in the same period in 2011.

EBITDA

As a result of the foregoing, negative EBITDA from our other business segment increased by negative Php4 million, or 57%, to negative Php11 million in the first half of 2012 from negative Php7 million in the same period in 2011.

Core Income

Our other business segment's core income amounted to Php3,539 million in the first half of 2012, an increase of Php2,228 million, or 170%, as compared with Php1,311 million in the same period in 2011 mainly as a result of an increase in other income, partially offset by higher expenses and provision for income tax.

Liquidity and Capital Resources

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

	Six Months ended June 30,	
	2012	2011
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php35,920	Php34,629
Net cash used in investing activities	12,485	6,298
<i>Capital expenditures</i>	9,298	6,335
Net cash used in financing activities	37,632	26,285
Net increase (decrease) in cash and cash equivalents	(14,445)	1,980
	June 30,	December 31,
	2012	2011
	(Unaudited)	(Audited)
	(in millions)	
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php100,294	Php91,273
Obligations under finance lease	6	7
	<u>100,300</u>	<u>91,280</u>
Current portion of interest-bearing financial liabilities:		
Long-term debt maturing within one year	12,480	22,893
Notes payable	1,449	3,109
Obligations under finance lease maturing within one year	6	7
	<u>13,935</u>	<u>26,009</u>
Total interest-bearing financial liabilities	114,235	117,289
Total equity attributable to equity holders of PLDT	146,116	151,833
	<u>Php260,351</u>	<u>Php269,122</u>
Other Selected Financial Data		
Total assets	Php385,274	Php395,646
Property, plant and equipment	191,790	197,731
Cash and cash equivalents	31,612	46,057
Short-term investments	611	558

Our consolidated cash and cash equivalents and short-term investments totaled Php32,223 million as at June 30, 2012. Principal sources of consolidated cash and cash equivalents in the first half of 2012 were cash flows from operating activities amounting to Php35,920 million, proceeds from availment of long-term debt and notes payable of Php27,647 million, proceeds from disposal of investment available for sale of Php3,563 million, interest received of Php646 million, dividends received of Php225 million. These funds were used principally for: (1) debt principal and interest payments of Php29,055 million and Php2,764 million, respectively; (2) dividend payments of Php23,935 million; (3) capital outlays of Php9,298 million; (4) payment for purchase of investment in an associate and purchase of shares of noncontrolling shareholders of Php7,626 million; (5) Trust Fund and settlement for redemption of shares of Php5,849 million (6) payment of capital expenditures under long-term financing of Php2,920 million; and (7) settlements of derivative financial instruments of Php693 million.

As at June 30, 2011, our consolidated cash and cash equivalents and short-term investments totaled Php39,258 million. Principal sources of consolidated cash and cash equivalents in the first half of 2011 were cash flows from operating activities amounting to Php34,629 million, net proceeds from availment of long-term debt and notes payable of Php11,949 million, interest received of Php653 million and dividends received of Php216 million. These funds were used principally for: (1) dividend payments of Php26,833 million; (2) total debt principal and interest payments of Php7,362 million and Php2,552 million, respectively; (3) capital outlays of Php6,335 million; and (4) settlements of derivative financial instruments of Php319 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php1,291 million, or 4%, to Php35,920 million in the first half of 2012, including Digitel Group's cash flows from operating activities for the first half of 2012 of Php3,663 million, from Php34,629 million in the same period in 2011, primarily due to lower corporate taxes paid and lower settlement of other payables, partially offset by lower operating income and lower collection of receivables.

Cash flows provided by operating activities of our fixed line business increased by Php2,624 million, or 22%, to Php14,306 million in the first half of 2012 from Php11,682 million in the same period in 2011, primarily due to lower level of settlement of accounts payable and other liabilities, partially offset by lower operating income and lower collection of receivables. Likewise, cash flows provided by operating activities of our BPO business in the first half of 2012 amounted to Php1,135 million, an increase of Php421 million, or 59%, from Php714 million in the same period in 2011, primarily due to higher operating income and a lower level of settlement of accounts payable and other liabilities, partially offset by a lower level of collection of outstanding receivables. On the other hand, cash flows from operating activities of our wireless business decreased by Php1,561 million, or 7%, to Php20,664 million in the first half of 2012 from Php22,225 million in the same period in 2011, primarily due to lower level of collection of outstanding receivables, higher level of settlement of accounts payable and other current liabilities, and lower operating income, partially offset by lower corporate taxes paid.

Investing Activities

Consolidated net cash used in investing activities amounted to Php12,485 million in the first half of 2012, including the Digitel Group's cash flows used in investing activities of Php535 million, an increase of Php6,187 million, or 98%, from Php6,298 million in the same period in 2011, primarily due to the combined effects of the following: (1) the payment for purchase of investments in associates and

purchase of shares of noncontrolling shareholders by Php7,626 million; (2) the increase in capital expenditures by Php2,963 million; (3) the payment for purchase of short-term investments by Php80 million; (4) the higher proceeds from disposal of property, plant and equipment of Php81 million; (5) payment for contingent consideration arising from business acquisition of Php817 million in the first half of 2011; and (6) net proceeds from disposal of investment available for sale of Php3,563 million in the first half of 2012.

Our consolidated capital expenditures in first half of 2012 totaled Php9,298 million, an increase of Php2,963 million, or 47%, as compared with Php6,335 million in the same period in 2011, primarily due to an increase in Smart and its subsidiaries' capital spending and the inclusion of the Digitel Group's capital spending of Php548 million for the first half of 2012, partially offset by the decrease in PLDT's capital spending. Smart and its subsidiaries' capital spending of Php4,921 million in the first half of 2012 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. PLDT's capital spending of Php3,406 million in the first half of 2012 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Digitel's capital spending of Php548 million for the first half of 2012 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, particularly in provincial areas. SPi and its subsidiaries' capital spending of Php176 million in the first half of 2012 was primarily used to fund the continued expansion of its customer relationship management and knowledge processing solutions facilities. The balance of Php247 million represented other subsidiaries' capital spending.

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

Dividends received in the first half of 2012 amounted to Php225 million, an increase of Php9 million, or 4%, as compared with Php216 million in the same period in 2011. The dividends received in the first half of 2012 were mostly from Beacon and Philweb while dividends received in the same period in 2011 were mostly from Meralco and Philweb.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php37,632 million, including the Digitel Group's net cash used in financing activities for the first half of 2012 of Php2,367 million, an increase of Php11,347 million, or 43% as compared with Php26,285 million in the same period in 2011, resulting largely from the combined effects of the following: (1) net increase in repayments of long-term debt and notes payable by Php21,693 million; (2) Trust Fund and settlement for the redemption of shares of Php5,849 million; (3) higher net settlement of capital expenditures under long-term financing by Php1,792 million; (4) higher settlements of derivative financial instruments by Php374 million; (5) higher interest payments by Php212 million; (6) lower cash dividend payments by Php2,898 million; and (7) higher proceeds from the issuance of long-term debt and notes payable by Php15,698 million.

Debt Financing

Proceeds from availment of long-term debt and notes payable for the six months ended June 30, 2012 were Php27,090 million and Php557 million, respectively, mainly from Smart's, PLDT's, SPi's and Digitel Group's drawings related to the financing of our capital expenditure requirements maturing loan obligations. Payments of principal and interest on our total debt amounted to Php29,055 million and Php2,764 million, respectively, in the first half of 2012, including the Digitel Group's payments of

principal and interest of Php1,632 million and Php273 million, respectively.

Our consolidated long-term debt decreased by Php1,392 million, or 1%, to Php112,774 million as at June 30, 2012 from Php114,166 million as at December 31, 2011, largely due to debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S. dollar to Php42.28 as at June 30, 2012 from Php43.92 as at December 31, 2011, partially offset by drawings from our term loan facilities. The long-term debt levels of Smart decreased by 2% to Php36,144 million and Digitel Group's decreased by 9% to Php19,430 million, while PLDT's increased by 1% to Php56,057 million as at June 30, 2012 as compared with December 31, 2011. The long-term debt of SPi stood at Php634 million as at June 30, 2012.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the facility agent. Proceeds from the facility will be used to finance capital expenditures and/or to refinance PLDT's existing obligations which were also used to finance capital expenditures for network expansion and improvement programs. The facility is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the facility agreement with final repayment on March 7, 2017. The initial drawdown of US\$100 million, or Php4,228 million, was made on May 10, 2012 and remained outstanding as at June 30, 2012.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. This loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date with final repayment on May 30, 2017. The amount of US\$25 million, or Php1,057 million, was fully drawn on May 29, 2012 and remained outstanding as at June 30, 2012.

On March 19, 2012, Smart issued Php5,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated March 15, 2012, comprised of Series A five-year notes amounting to Php1,910 million and Series B ten-year notes amounting to Php3,590 million. The Series A note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 96% payable on March 20, 2017. The Series B note facility has annual amortization equivalent to 1% of the principal amount starting March 19, 2013 with the balance of 91% payable on March 21, 2022. Proceeds from the issuance of these notes have been used primarily for Smart's debt refinancing and capital expenditures. The aggregate amount of Php5,462 million, net of debt discount, remained outstanding as at June 30, 2012.

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. The facility is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity on April 12, 2022. The amount of Php2,000 million was fully drawn on April 12, 2012 and remained outstanding as at June 30, 2012.

On March 26, 2012, SPi signed a loan agreement amounting to US\$15 million with Security Banking Corporation. Proceeds of the loan were used for working capital requirements. The loan will mature on March 26, 2017 and is payable in 19 quarterly installments commencing on September 24, 2012. The amount of US\$15 million, or Php634 million, remained outstanding as at June 30, 2012.

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with Land Bank of the Philippines to finance capital expenditures and/or refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity. There are no amounts outstanding under this facility as at June 30, 2012. The amount of Php3,000 million was fully drawn in July 18, 2012.

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance PLDT's loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity. The amount of Php2,000 million was fully drawn on June 27, 2012 and remained outstanding as at June 30, 2012.

On May 29, 2012, Smart signed a US\$50 million five-year term loan facility to finance the equipment and service contracts for the modernization and expansion project with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender. The loan is payable over five years in nine equal semi-annual installments with the first installment due on the 12th month from signing date. No availment has been made on this facility as at June 30, 2012.

On June 7, 2012, Smart signed a Philippine Peso term loan facility with LBP to finance capital expenditures for its network upgrade and expansion program for an amount of Php1,000 million. The facility is a five-year loan with annual amortizations equivalent to 1% of the principal amount commencing on the first anniversary of the initial drawdown with the balance of 96% payable upon maturity. No availment has been made on this facility as at June 30, 2012.

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

On July 27, 2012, PLDT issued Php1,500 million seven-year fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the facility were used to finance capital expenditures for network expansion and improvement.

As a result of the acquisition of Digitel, as discussed in Other Information, PLDT assumed the obligations of JG Summit Holdings, Inc., or JGSHI, as guarantor under the Digitel and DMPI loan agreements covered by guarantees from JGSHI. These loans and guarantees contained certain representations and covenants applicable to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI obtained the required consents of the lenders and export credit agencies for the replacement of JGSHI by PLDT as guarantor under these loans. As at June 30, 2012, the outstanding balance of DMPI loans covered by PLDT guarantees is Php16,990 million. There are no outstanding Digitel loans covered by PLDT guarantees as at June 30, 2012.

Approximately Php58,494 million principal amount of our consolidated outstanding long-term debt as at June 30, 2012 is scheduled to mature over the period from 2012 to 2015. Of this amount, Php24,733 million is attributable to Smart, Php22,713 million to PLDT, Php10,581 million to Digitel Group and Php467 million is attributable to SPI.

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

Debt Covenants

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

As at June 30, 2012, we were in compliance with all of our debt covenants.

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

Financing Requirements

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

Consolidated cash dividend payments in the first half of 2012 amounted to Php23,935 million as compared with Php26,833 million paid to shareholders in the same period in 2011.

The following table shows the dividends declared to common and preferred shareholders from the earnings for the six months ended June 30, 2012 and 2011:

<u>Earnings</u>	<u>Date</u>		<u>Payable</u>	<u>Amount</u>	
	<u>Approved</u>	<u>Record</u>		<u>Per share</u>	<u>Total Declared</u>
				<i>(in millions, except per share)</i>	
2011					
Common					
Regular Dividend	August 2, 2011	August 31, 2011	September 27, 2011	78.00	<u>Php14,567</u>
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock ⁽¹⁾	Various	Various	Various	–	25
10% Cumulative Convertible Preferred Stock	Various	Various	Various	1.00	260
Charged to Retained Earnings					<u>Php14,852</u>
2012					
Common					
Regular Dividend	August 7, 2012	August 31, 2012	September 28, 2012	60.00	Php12,963
Preferred					
Series IV Cumulative Non-convertible Redeemable Preferred Stock ⁽¹⁾	August 7, 2012	August 22, 2012	September 15, 2012	–	12
Charged to Retained Earnings					<u>Php12,975</u>

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

See *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Off-Balance Sheet Arrangements

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

Equity Financing

As part of our goal to maximize returns to our shareholders, in 2008, we obtained Board of Directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's then total outstanding shares of common stock. Under the share buyback program, we acquired a total of approximately 2.72 million shares of PLDT's common stock for a total consideration of Php6,505 million representing approximately 1% of PLDT's outstanding shares of common stock, at a weighted average price of Php2,388 per share as at June 30, 2012. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the first half of 2012 and 2011. See to *Note 8 – Earnings Per Common Share*, *Note 19 – Equity* and *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at June 30, 2012 and 2011, see *Note 27 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php95 million and Php913 million as at June 30, 2012 and December 31, 2011, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

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

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



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

	Fair Values	
	June 30, 2012	March 31, 2012
	(Unaudited) (in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities	Php78	Php76
Unlisted equity securities	5,553	7,101
Investments in debt securities	154	155
Advances and refundable deposits – net of current portion	885	852
Total noncurrent financial assets	6,670	8,184
Current Financial Assets		
Cash and cash equivalents	31,612	46,792
Short-term investments	611	607
Trade and other receivables – net	16,223	16,014
Derivative financial assets	62	438
Current portion of investment in debt securities	370	363
Current portion of advances and refundable deposits	7,979	8,050
Total current financial assets	56,857	72,264
Total Financial Assets	Php63,527	Php80,448
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities	Php107,836	Php98,538
Derivative financial liabilities	2,425	2,236
Customers' deposits	1,809	1,722
Deferred credits and other noncurrent liabilities	16,188	16,640
Total noncurrent financial liabilities	128,258	119,136
Current Financial Liabilities		
Accounts payable	23,623	23,815
Accrued expenses and other current liabilities	47,291	44,971
Interest-bearing financial liabilities	13,935	21,340
Derivative financial liabilities	90	985
Dividends payable	834	24,723
Total current financial liabilities	85,773	115,834
Total Financial Liabilities	Php214,031	Php234,970

The following table sets forth the amount of consolidated losses recognized for the financial assets and liabilities for the six months ended June 30, 2012 and for the three months ended March 31, 2012:

	June 30, 2012	March 31, 2012
	(in millions)	
Profit and Loss		
Interest income	Php626	Php357
Losses on derivative financial instruments – net	(403)	(95)
Accretion on financial liabilities	(546)	(288)
Interest on loans and other related items	(3,150)	(1,591)
Other Comprehensive Income		
Net fair value gains on cash flow hedges	38	32
Net gains on available-for-sale financial assets – net of tax	3	1
	(Php3,432)	(Php1,584)

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 2012 and 2011 was 3.0% and 4.3%, respectively. Moving forward, we currently expect inflation to increase, which may have an impact on our operations.

PART II – OTHER INFORMATION

Divestment of CURE

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

- CURE will sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets. There will be a nine-month transition period to effect this first requirement; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band, or the Affected Frequency, and related permits, or the Divestment Sale.

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

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

Smart also informed the NTC that the minimum Cost Recovery Amount to which the PLDT Group is entitled to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through a sale of shares of stock to the winning bidder.

Mandatory Tender Offer in connection with the Digitel Acquisition

Under the SRC, PLDT is required to conduct a mandatory tender offer for all the remaining Digitel shares held by the noncontrolling shareholders, in connection with PLDT's acquisition of 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of noncontrolling Digitel shareholders, except for tendering shareholders residing outside the Philippines who will only be paid in cash. The tender offer period commenced on December

7, 2011 and ended on January 16, 2012. A total of 2,888 million shares were tendered by Digitel noncontrolling shareholders, representing approximately 94% of the shares held by the public. Of the shares tendered, 13% or 374 million Digitel shares were paid in cash for an aggregate amount of Php600 million, and 87% or 2,514 million Digitel shares were paid in PLDT common shares for a total of approximately 1.61 million PLDT common shares, which were issued on January 27, 2012.

Conversion of Exchangeable Bonds

On February 7, 2012, PLDT's Board of Directors authorized the exchange of 78.4% of the 2014 Exchangeable Bonds issued by DCPL with redemption value of US\$340 million, or Php14,641 million, in exchange for 14,641 million Digitel common shares. On May 8, 2012, PLDT's Board of Directors authorized the exchange of the remaining 2014 Exchangeable Bonds with redemption value of US\$27 million, or Php1,143 million, in exchange for 1,143 million Digitel common shares. The exchange is subject to the approval of the Philippine SEC of the increase in the Authorized Capital Stock of Digitel.

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

Digitel's Voluntary Delisting

On January 25, 2012, Digitel filed a petition for voluntary delisting of its shares with the Philippine Stock Exchange, or PSE, since its public ownership level has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and the Digitel shares were delisted and ceased to be tradable on the PSE effective March 26, 2012.

PCEV's Voluntary Delisting

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps as necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart filed a Tender Offer Report with the Philippine SEC on March 15, 2012. The Tender Offer commenced on March 19, 2012 and ended on April 18, 2012, with approximately 25.1 million shares or 43.4% of PCEV's noncontrolling shares tendered, thereby increasing Smart's ownership to 99.7% of the outstanding common stock of PCEV. The aggregate cost of the Tender Offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV, on the other hand, filed with the PSE its petition for voluntary delisting on March 19, 2012. On April 25, 2012, the PSE approved the petition for voluntary delisting and PCEV's shares were delisted and ceased to be tradable on the PSE effective May 18, 2012.

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

On July 31, 2012, PCEV's stockholders authorized the decrease in authorized capital stock of PCEV from Php12,800 million divided into three classes: 12,060 million shares of common stock with a par value of Php1.00 each; 120 million shares of Class I preferred stock with a par value of Php2.00 each; and 500 million shares of Class II preferred stock with a par value of Php1.00 each to Php12,177 million divided into three classes: 574 thousand shares of common stock with a par value of Php21,000 each; 33 million shares of Class I preferred stock with a par value of Php2.00 each; and 50 million shares of Class II preferred stock with a par value of Php1.00 each.

PCEV's stockholders also authorized the increase in the par value of the shares of common stock of PCEV from Php1.00 per share to Php21,000 per share. This is for purposes of rationalizing the stockholders profile of PCEV following its delisting from the PSE effective May 18, 2012 and reverting to its status as a private company. Presently, Smart owns 11,651 million shares representing 99.7% of the outstanding common stock of PCEV and the balance of 33 million shares representing 0.3% are owned by 19,607 stockholders. Around 75% of these stockholders own 300 or less shares each and many of them have been inactive as borne out by their non-participation in PCEV's stockholders' meetings either in person or by proxy. Communications or reports from PCEV have also been unsuccessfully delivered to the respective addresses on record of many of these stockholders despite diligent efforts and reasonable means employed by PCEV to effect such delivery.

The increase in par value of the common stock will have the following effects: (1) the number of shares of common stock into which a portion of the authorized capital stock is divided will decrease from 12,060 million shares to 574 thousand shares; (2) the number of issued and outstanding shares of common stock will decrease from 11,772 million shares to 560 thousand shares; and (3) the number of holders of common stock will decrease from 19,608 to 98, of which only 3 holders will hold 100 or more shares.

Each multiple of 21,000 shares of common stock, with a par value of Php1.00 per share, will be reduced to one share, with a par value of Php 21,000. Stockholdings of less than 21,000 shares, or the Residual Shares, will be paid the fair value thereof equivalent to Php4.50 per share, or the Cash Value. This Cash Value is the same price that Smart paid to the holders of PCEV shares who participated and tendered their shares in the Tender Offer conducted by Smart during the period from March 19, 2012 to April 18, 2012 as discussed in the preceding section on "Voluntary Delisting". The payment for the Cash Value will be made available to the holders of the Residual Shares beginning on the 30th day following the approval by the Philippine SEC of the decrease in authorized capital stock and amendments to the Articles of Incorporation of PCEV.

On July 31, 2012, PCEV's stockholders authorized the amendments to the Seventh Article of the Articles of Incorporation to reflect the decrease in authorized capital stock, decrease in number of shares of preferred stock, increase in par value of common stock and decrease in the number of shares of common stock.

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

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

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

PLDT's Creation of Voting Preferred Stock

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each,

and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock.

The Special Meeting of Stockholders scheduled on September 20, 2011 for purposes of presenting and obtaining stockholders' approval of the Amendments was cancelled by the Board of Directors due to an anticipated lack of quorum.

On March 22, 2012, PLDT's stockholders approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized preferred capital stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendment. Thereafter, the Amended Articles of Incorporation were submitted to the Philippine SEC for approval, which the latter approved on June 5, 2012.

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

As at the date of issuance of this report, none of the Voting Preferred Stock has been issued.

Redemption of Preferred Shares

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

The record date for the determination of the holders of outstanding SIP Preferred Shares subject to Redemption, or the Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount

equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

PLDT has set aside Php5.9 billion (the amount required to fund the redemption price for the SIP Preferred Shares in a trust account) in addition to the Php2.3 billion funds from unclaimed dividends on SIP Preferred Shares, or the total amount of Php8.2 billion, to fund the redemption price for the SIP Preferred Shares, or the Redemption Trust Fund, in a trust account, or the Trust Account, in the name of Rizal Commercial Banking Corporation, as Trustee. Pursuant to the terms of the Trust Account, the Trustee will continue to hold in trust, for the benefit of those Holders of SIP Preferred Shares who failed to claim their Redemption Price for their SIP Preferred Shares for a period of ten years from the Redemption Date, or until January 19, 2022. After the said date, any and all remaining balance in the Trust Account shall be returned to PLDT and revert to its general funds. Any interests on the Redemption Trust Fund shall accrue for the benefit of, and be paid from time to time to, PLDT.

As at January 19, 2012, notwithstanding that any stock certificate representing the SIP Preferred Shares was not surrendered for cancellation, the SIP Preferred Shares were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such SIP Preferred Shares ceased and terminated, except only the right to receive the Redemption Price of such SIP Preferred Shares, but without interest thereon.

All SIP Preferred Shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock were redeemed and retired effective January 19, 2012. A total amount of Php192 million was withdrawn from the Trust Account, representing total payments on redemption as at June 30, 2012. The balance of the Trust Account of Php7,970 million was presented as part of the current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our statement of financial position as at June 30, 2012.

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock effective August 30, 2012.

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

See *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

DMPI's Equity Restructuring

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

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

Digitel's Equity Restructuring

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

Corporate Merger of MSSSI and ePLDT

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

Investment in PDRs of MediaQuest

On May 8, 2012, the PLDT Board of Directors approved a Php6 billion investment by ePLDT, in Philippine Depositary Receipts, or PDRs, to be issued by MediaQuest Holdings, Inc., or MediaQuest, a wholly-owned entity of the PLDT Beneficial Trust Fund. MediaQuest will invest the proceeds of the PDRs in its wholly-owned subsidiaries, Associated Broadcasting company Development Corporation, or TV5, and Mediascape, Inc., or Cignal TV. TV5 operates free-to-air TV and radio stations while Cignal TV operates a DTH satellite TV business.

Since 2007, TV5 has grown its market share from 2.3% to 18% at the end of 2011 for Metro Manila and from 2.7% to 15.6% nationwide. Cignal TV is now the largest DTH Pay-TV operator in the Philippines, with over 250,000 subscribers. This investment will provide MediaQuest with the additional funding it requires in order to sustain the growth momentum of TV5 and Cignal TV.

The PLDT Group's financial investment in media is consistent with its overall strategy of evolving from a traditional telecommunications business into a multi-media service company. It mirrors as well similar investments in media assets by other leading telecommunications companies worldwide. MediaQuest will serve as the anchor for the PLDT Group's media offerings in terms of creation of content for delivery across the PLDT Group's various platforms.

ePLDT made a deposit for future stock subscription of Php4 billion in MediaQuest as at June 30, 2012. An additional deposit of Php1 billion was made on July 6, 2012. Mediaquest will file for an increase in authorized capital stock with the Philippine SEC once the necessary documentation has been completed.

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

ePLDT's Sale of Investment in Philweb

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

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

Related Party Transactions

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

ANNEX – AGING OF ACCOUNTS RECEIVABLE

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


Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
(in millions)					
Retail subscribers	Php12,176	Php2,671	Php1,017	Php304	Php8,184
Corporate subscribers.....	9,979	1,940	992	654	6,393
Foreign administrations	5,143	1,413	1,485	788	1,457
Domestic carriers	853	205	94	84	470
Dealers, agents and others	3,790	2,714	147	204	725
Total	31,941	Php8,943	Php3,735	Php2,034	Php17,229
Less: Allowance for doubtful accounts	15,718				
Total Receivables - net.....	<u>16,223</u>				


SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: 
NAPOLEON D. NAZARENO
President and Chief Executive Officer

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

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

Date: August 7, 2012