

## PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

PhP10,000,000,000.00 with an over-subscription option of up to PhP5,000,000,000.00

5.2250% p.a. Seven-Year Bonds Due 2021 5.2813% p.a. Ten-Year Bonds Due 2024 Offer Price: 100% of Face Value

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners FIRST METRO INVESTMENT CORPORATION HSBC

BPI Capital Corporation

### **Co-Lead Underwriters**

CHINA BANKING CORPORATION DEVELOPMENT BANK OF THE PHILIPPINES **RCBC CAPITAL CORPORATION** SB CAPITAL INVESTMENT CORPORATION

## **Participating Underwriter**

LAND BANK OF THE PHILIPPINES

**Issue Coordinator** 



The date of this Prospectus is January 22, 2014

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.



(A corporation duly organized and existing under Philippine laws)

### PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

RAMON COJUANGCO BUILDING, MAKATI AVENUE, MAKATI CITY, METRO MANILA, PHILIPPINES TELEPHONE NUMBER: +(632) 816-8534

Philippine Long Distance Telephone Company ("PLDT", the "Issuer", or the "Company") is offering Fixed Rate Bonds (the "Bonds") with an aggregate principal amount of Ten Billion Pesos (Php10,000,000,000.00), with an over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00) (the "Offer"). The Bonds are comprised of Seven (7) Year Fixed Rate Bonds due in 2021 (the "7-Year Bonds") and Ten (10) Year Fixed Rate Bonds due in 2024 (the "10-Year Bonds"). The Bonds will be issued pursuant to the Offer on February 6, 2014 (the "Issue Date").

The 7-Year Bonds shall have a term of seven (7) years from the Issue Date, with a fixed interest rate equivalent to 5.2250% p.a. Interest on the 7-Year Bonds shall be payable quarterly in arrears starting on May 6, 2014 for the first Interest Payment Date, and August 6, November 6, February 6 and May 6 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Banking Day without adjustment if such Interest Payment Date is not a Banking Day.

The 10-Year Bonds shall have a term of ten (10) years from the Issue Date, with a fixed interest rate equivalent to 5.2813% p.a. Interest on the Ten Year Bonds shall be payable quarterly in arrears starting on May 6, 2014 for the first Interest Payment Date, and August 6, November 6, February 6 and May 6 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Banking Day without adjustment if such Interest Payment Date is not a Banking Day.

The Bonds shall be repaid at maturity at par (or 100% of face value) on the respective Maturity Date or on February 6, 2021 for the 7-Year Bonds and on February 6, 2024 for the 10-Year Bonds, unless the Company exercises its Early Redemption Option according to the conditions therefore (see "Description of the Bonds" – "Redemption and Purchase" on page 48).

Upon issuance, the Bonds shall, when issued, constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by the law. The Bonds shall effectively be subordinated in right of payment to, among others, all of PLDT's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines (see "Description of the Bonds" – "Ranking" on page 47).

The Bonds have been rated AAA by Credit Rating and Investors Services Philippines, Inc. on January 6, 2014. The rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Bonds are offered to the public at face value through the Underwriters. The Philippine Depository & Trust Corp. ("PDTC") will act as the Registrar and Paying Agent of the Bonds. The Bonds shall be issued in minimum denominations of Php50,000 each, and in integral multiples of Php10,000 thereafter. The Bonds shall be traded in denominations of Php10,000 in the secondary market.

PLDT intends to cause the listing of the Bonds on a securities exchange licensed with the Philippine Securities and Exchange Commission ("SEC") and has initiated discussions with the Philippine Dealing & Exchange Corp. ("PDEx") for this purpose. However, there can be no assurance that such a listing will

actually be achieved either before or after the Issue Date or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing would be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

PLDT expects to raise gross proceeds of Php10,000,000,000.00, with an over-subscription option of up to Php5,000,000,000.00. The net proceeds from the issue of the Bonds, without the over-subscription option (after deduction of fees, commissions and expenses) is approximately Php9,896,084,375. Assuming the over-subscription option of up to Php5,000,000,000 is fully exercised, PLDT expects total net proceeds of approximately Php14,853,584,375.00 after fees, commissions and expenses. Proceeds of the Offer shall be used to finance capital expenditure and/or refinance existing obligations, the proceeds of which, were utilized for service improvements and expansion, which are discussed further in the section entitled "Use of Proceeds" of this Prospectus. The Joint Lead Underwriters shall receive a fee of 0.30% on the final aggregate nominal principal amount of the Bonds issued, which is inclusive of underwriting fees and selling commissions.

PLDT confirms that this Prospectus contains all material information relating to the Company, its affiliates and subsidiaries, as well as all material information on the issue and offering of and the Bonds as may be required by the applicable laws of the Republic of the Philippines. No facts have been omitted that would make any statement in this Prospectus misleading in any material respect. PLDT confirms that it has made all reasonable inquiries with respect to any information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. PLDT, however, has not independently verified any or all such publicly available information, data or analysis. The Joint Issue Managers and the Underwriters assume no liability for any information supplied herein by PLDT. Accordingly, PLDT accepts responsibility. The prices of securities can and do fluctuate. Any individual security may experience upward or downward movements, and may lose all or part of its value over time. The future performance of a security may defy the trends of its past performance, and there may be a significant difference between the buying price and the selling price of any security. As such, there is an inherent risk that losses may be incurred, rather than profit made, as a result of buying and selling securities.

In deciding whether to invest in the Bonds, a prospective purchaser of the Bonds ("Prospective Bondholder") should, therefore, carefully consider all the information contained in this Prospectus, including but not limited to, several factors inherent to the Company, which includes significant competition, exposure to risks relating to the performance of the economies of other countries, and other risks relating to customer default (detailed in "Risk Factors and Other Considerations" section on page 19 of this Prospectus), and those risks relevant to the Philippines vis-à-vis risks inherent to the Bonds.

No representation or warranty, express or implied, is made by the Joint Issue Managers and the Underwriters as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstances, constitute a representation or create any implication that the information contained or referred to in this Prospectus is accurate, complete or correct as of any time subsequent to the date hereof or that there has been no change in the affairs of PLDT since the date of this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each Prospective Bondholder receiving a copy of this Prospectus acknowledges that he has not relied on the Joint Issue Managers and the Underwriters or any person affiliated with the Joint Issue Managers and the Underwriters, in his investigation of the accuracy of any information found in this Prospectus or in his investment decision. Prospective Bondholders should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds, among others. It bears emphasis that investing in the Bonds involves certain risks. It is best to refer again to the

section on "Risk Factors and Other Considerations" on page 19 of this Prospectus for a discussion of certain considerations with respect to an investment in the Bonds.

No person nor group of persons has been authorized by PLDT, the Joint Issue Managers and the Underwriters to give any information or to make any representation concerning PLDT or the Bonds other than as contained in this Prospectus and, if given or made, any such other information or representation should not be relied upon as having been authorized by PLDT or the Joint Issue Managers or the Underwriters.

PLDT is organized under the laws of the Philippines. Its principal office is at Ramon Cojuangco Building, Makati Avenue, Makati City, Metro Manila, Philippines with telephone number (632) 816-8405.

## ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT.

### PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

By:

eon L. Nazareno Nap

President and Chief Executive Officer

SUBSCRIBED AND SWORN to before me this January 22, 2014 affiant exhibiting to me his Passport with no. EB8091848 issued on May 11, 2013, by DFA in the City of Manila.



my

MARIA ELOISA IMELDA S. SINCZON Appointment No. M-581 Notary Public for Makati City Until December 31, 2014 Penthouse, Liberty Center 104 H.V. dela Costa Street Salcedo Village, Makati City Roll of Attorneys No. 62648 PTR No. 4236196/Makati City/01-09-2014 IBP No. LRN-011852/Makati City/01-25-2013

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### FORWARD-LOOKING STATEMENTS

Certain statements under "Executive Summary", "Risk Factors and Other Considerations", and elsewhere in this Prospectus constitute "forward-looking statements". All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding the financial position of PLDT, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the activities of PLDT), are forward-looking statements.

Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However these words are not the exclusive means of identifying forward-looking statements. All statements regarding the expected financial condition and results of operations, business, plans and prospects of PLDT are forward-looking statements. These forwardlooking statements include statements as to the business strategy, revenue and profitability (including, without limitation, any financial or operating projections or forecasts) and planned projects of PLDT and other matters discussed in this Prospectus that are not historical fact. These forward-looking statements and any other projections contained in this Prospectus involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of PLDT, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections of the directors and management of PLDT, present and future business strategies and the environment in which they will operate in the future. Reliance should not be placed on these forward-looking statements. These forward-looking statements speak only as of the date of this Prospectus. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forwardlooking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change of events, conditions or circumstances on which any such statement was based.

### **DEFINITION OF TERMS**

Unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" in this Prospectus mean Philippine Long Distance Telephone Company and its subsidiaries, and references to "PLDT," the "Issuer," or the "Company" mean Philippine Long Distance Telephone Company, excluding subsidiaries.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

In this Prospectus, each reference to the terms on the left shall have the meanings ascribed to them as follows:

ACeS Philippines	ACeS Philippines Cellular Satellite Corporation, an 88.5%-owned subsidiary of PLDT	
ADRs	American Depositary Receipts	
ADSs	American Depositary Shares	
AGS	ABM Global Solutions, Inc. and subsidiaries, or AGS Group, a 99.2%-owned subsidiary of ePLDT	
Application to Purchase	The document to be executed by any Person qualified to become a Bondholder	
ARPU	Average Revenue Per User	
Banking Day	A day (except Saturdays, Sundays and holidays) on which commercial banks in Makati City, Metro Manila, Philippines are open for business transaction	
Bayan	Bayan Telecommunications, Inc.	
Beacon	Beacon Electric Asset Holdings, Inc., 50%-owned by PCEV	
Beta	Asia Outsourcing Beta Limited, a holding company of the SPi Technologies, Inc. and its subsidiaries, or SPi Group	
BIR	Bureau of Internal Revenue of the Philippines	
Bondholder	A person whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders	
Bonds	The SEC-registered 7-Year Bonds and 10-Year Bonds to be issued by PLDT in the aggregate principal amount of Php15,000,000,000	
Bond Agreements	The Trust Indenture between the Issuer and the Trustee, Master Certificates of Indebtedness, the Registry and Paying Agency Agreement between the Issuer, the Registrar, and the Paying Agent, and any other document, certificate, or writing contemplated thereby	
BPI Capital	BPI Capital Corporation	
BPO	Business Process Outsourcing	
BSP	Bangko Sentral ng Pilipinas	
BTFHI	BTF Holdings, Inc.	
BTS	Base Transceiver Station	
By-Laws	The Company's by-Laws, as amended	
CBA	Collective Bargaining Agreement	
CEO	Chief Executive Officer	
CG	Corporate Governance	
CG Manual	PLDT Manual on Corporate Governance	
CGO	Corporate Governance Office	
Chikka	Chikka Holdings Limited, a wholly-owned subsidiary of Smart	
Civil Code	New Civil Code of the Philippines	
ClarkTel	PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT	
CMTS	Cellular Mobile Telephone System	
Code of Ethics	PLDT's Code of Business Conduct and Ethics	
Co-Lead Underwriters	China Banking Corporation, Development Bank of the Philippines, RCBC Capital Corporation and SB Capital Corporation	

Common Shares	Common shares of the Company with a par value of Php5.00, listed and traded with the PSE
Company or PLDT or Issuer	Philippine Long Distance Telephone Company
Constitution	The 1987 Constitution of the Philippines
Corporation Code	Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines," as amended
CPCN	Certificate of Public Convenience and Necessity
CRISP	Credit Rating and Investors Services Philippines, Inc.
CURE	Connectivity Unlimited Resource Enterprise, Inc., a majority-owned subsidiary of PH Communications Holdings Corporation
DFON	Domestic Fiber Optic Network
Digitel	Digital Telecommunications Philippines, Inc., a 99.5%-owned subsidiary of PLDT
Digitel Group	Digitel and its subsidiaries
DMPI	Digitel Mobile Philippines, Inc., which owns the brand name <i>Sun Cellular</i> and a wholly-owned subsidiary of Digitel
DSL	Digital Subscriber Line
ECC	Executive Compensation Committee
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ePLDT	ePLDT, Inc., a wholly-owned subsidiary of PLDT
First Metro	First Metro Investment Corporation
First Pacific	First Pacific Company Limited
First Pacific Group	First Pacific and its Philippine affiliates
FTTH	Fiber-to-the-Home
Globe	Globe Telecom, Inc.
Government	Government of the Republic of the Philippines
Governmental Authority	The Republic of the Philippines, any of its political subdivisions, or any branch, department, agency or office thereof, or any Person exercising or entitled to exercise executive, legislative, judicial, regulatory or administrative functions thereof
GNC	Governance and Nomination Committee
GSM	Global System for Mobile communications
HSBC	The Hongkong and Shanghai Banking Corporation Limited
I-Contacts	I-Contacts Corporation, a wholly-owned subsidiary of Smart
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
IGF	International Gateway Facility
Interest Payment Date	May 6, 2014 for the first Interest Payment Date and on August 6, November 6, February 6 and May 6 of each year for each subsequent Interest Payment Date, for so long as the relevant Bonds are outstanding. If the Interest Payment Date is not a Banking Day, interest will be paid on the next succeeding Banking Day, without adjustment as to the amount of interest to be paid
Interest Rate	Interest rate of the Bonds
Interest Rate Setting Date	January 21, 2014
IP	Internet Protocol
IPCDSI	IP Converge Data Services, Inc., a wholly-owned subsidiary of ePLDT
Issue Coordinator	First Metro Investment Corporation
Issue Date	February 6, 2014 or such date on which the Bonds shall be issued by PLDT to the Bondholders
JG Summit Group	JG Summit Holdings, Inc. and its subsidiaries

Joint Issue Managers, Joint	BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro	
Lead Underwriters and	Investment Corporation and The Hongkong and Shanghai Banking Corporation	
Joint Bookrunners	Limited	
LEC	Local Exchange Carrier	
LTIP	Long-term Incentive Plan	
Majority Bondholders	The holder or holders of more than fifty (50%) of the principal amount of the Bonds outstanding at the relevant time	
Maratel	PLDT-Maratel, Inc., a 98.0%-owned subsidiary of PLDT	
Master Certificates of Indebtedness	Each of the master form representing such amounts corresponding to the Seven- Year Bonds and the Ten-Year Bonds	
Maturity Date	February 6, 2021 for the Seven-Year Bonds and February 6, 2024 for the Ten-Year Bonds. The Maturity Date of the Bonds, for purposes of the Company effecting repayment of the principal amount thereof, shall be in accordance with Banking Day convention. Thus, if Maturity Date is not a Banking Day, the principal repayment, without adjustment as to the amount of interest to be paid, shall be made by the Company on the succeeding Banking Day.	
MediaQuest	MediaQuest Holdings, Inc., a wholly-owned entity of the PLDT Beneficial Trust Fund	
Meralco	Manila Electric Company	
MIC	Mabuhay Investment Corporation (formerly Mabuhay Satellite Corporation), a 67.0%- owned subsidiary of PLDT	
MPIC	Metro Pacific Investments Corporation	
MPRI	Metro Pacific Resources, Inc.	
netGames	netGames, Inc., a 57.5%-owned subsidiary of ePLDT	
NGN	Next Generation Network	
NTC	National Telecommunications Commission of the Philippines	
NTT	Nippon Telegraph and Telephone Corporation	
NTT Communications	NTT Communications Corporation, a wholly-owned subsidiary of NTT	
NTT DOCOMO	NTT DOCOMO, Inc., a majority-owned and publicly traded subsidiary of NTT	
NYSE	New York Stock Exchange	
Offer or Offering	The offer and issuance of the Bonds by the Company pursuant to the Trust Indenture, Underwriting and Issue Management Agreement, Application to Purchase, and the Registry and Paying Agency Agreement, which are summarized in the section "Description of the Bonds" on page 45	
Offer Period	Commencing at 9:00 a.m. on January 24, 2014 and ending at 12:00 p.m. on January 30, 2014 or such earlier day or later day as may be mutually agreed upon the by Issuer, the Joint Issue Managers and the Joint Lead Underwriters	
PAPTELCO	Philippine Association of Private Telephone Companies, Inc.	
Participating Underwriter	Land Bank of the Philippines	
PAS	Philippine Accounting Standards	
Paying Agent	Refers to PDTC, appointed under the Registry and Paying Agency Agreement, that will receive the funds from the Company for the payment of the principal, interest, and other amounts due on the Bonds and remit the same to the Bondholders, based on the records shown in the Register of Bondholders	
PCD	PCD Nominee Corporation	
PCEV	PLDT Communications and Energy Ventures, Inc., a 99.8%-owned subsidiary of Smart	
PDEx	Philippine Dealing & Exchange Corp.	
PDRs	Philippine Depositary Receipts	
PDSI	Primeworld Digital Systems, Inc., a wholly-owned subsidiary of Smart	
PDTC	Philippine Depository & Trust Corporation	
Peso or Pesos or Php	Philippine Pesos, the lawful and official currency of the Republic of the Philippines	

Person	An individual, a juridical person such as a corporation, partnership, joint venture, unincorporated association, trust or other juridical entity, or any governmental authority	
PFRS	Philippine Financial Reporting Standards	
PGNL	Pilipinas Global Network Limited, a 60%-owned subsidiary of PLDT	
Philcom	PLDT-Philcom, Inc., a wholly-owned subsidiary of PLDT	
PLDT Beneficial Trust Fund	The beneficial trust fund created by PLDT to pay the benefits under its employee Benefit Plan	
PLDT Global	PLDT Global Corporation, a wholly-owned subsidiary of PLDT	
PLP	PLDT Landline Plus	
Preferred Shares	Redeemable and reissuable preferred voting shares of the Company with a par value of Php10	
Prospectus	This Prospectus together with all its annexes, appendices and amendments, if any	
PSE	The Philippine Stock Exchange, Inc.	
PTIC	Philippine Telecommunications Investment Corporation	
Record Date	Two (2) Banking Days prior to the relevant Payment Date, which shall be the reckoning day for determining the Bondholders entitled to receive interest, principal, or any other amount due under the Bonds	
Register of Bondholders	The electronic registry book of the Registrar and Paying Agent containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon	
Registrar	Refers to PDTC, appointed pursuant to the Registry and Paying Agency Agreement	
Registry and Paying Agency Agreement	Registry and Paying Agency Agreement dated January 22, 2014 between the Company and the Paying Agent and Registrar	
SBI	Smart Broadband, Inc., a wholly-owned subsidiary of Smart	
SEC or Philippine SEC	Philippine Securities and Exchange Commission	
SGV & Co. or SGV	SyCip Gorres Velayo & Co., the Company's Independent Auditors	
SHPL	Smarthub Pte. Ltd., a wholly-owned subsidiary of Smart	
SIM	Subscriber Identification Module	
Smart	Smart Communications, Inc., a wholly-owned subsidiary of PLDT	
SMS	short messaging system	
SRC	Republic Act No. 8799, otherwise known as "The Securities Regulation Code of the Philippines," including its Implementing Rules and Regulations as promulgated and amended or supplemented by the SEC from time to time	
SRF	Supervision and Regulation Fees	
SubicTel	PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT	
Tax Code	National Internal Revenue Code of the Philippines, as amended, and its implementing rules and regulations as maybe in effect from time to time	
Terms and Conditions	The terms and conditions of the issuance of the Bonds as set forth in the Trust Indenture	
Trust Indenture	Trust Indenture dated January 22, 2014 between the Company and the Trustee	
Trustee	Metropolitan Bank & Trust Company – Trust Banking Group	
TSC	Technology Strategy Committee	
Underwriters	Joint Lead Underwriters, Co-Lead Underwriters and Participating Underwriter	
Underwriting and Issue Management Agreement	Underwriting and Issue Management Agreement dated January 22, 2014 among the Company, the Joint Issue Managers, the Joint Lead Underwriters, the Co-Lead Underwriters and the Participating Underwriter	
U.S. or United States	The United States of America	
U.S. SEC	United States Securities and Exchange Commission	
US\$ or \$	U. S. Dollar, the lawful currency of the United States of America	
VAS	Value-Added Service	

VAT	Value-Added Tax
VolP	Voice over Internet Protocol
WiMax	Worldwide Inoperability for Microwave Access

### **EXECUTIVE SUMMARY**

The following summary is qualified in its entirety by the more detailed information, including our financial statements and the notes relating thereto, appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all the information that a prospective purchaser should consider before investing in the Bonds. Prospective purchasers of the Bonds must read the entire Prospectus carefully, including the section on "Risk Factors and Other Considerations", and the financial statements and the related notes to those statements annexed to this Prospectus. Capitalized terms not defined in this summary are defined in the section "Definition of Terms."

### THE COMPANY

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks.

We are the leading fixed line service provider in the Philippines accounting for approximately 69% of the total reported fixed line subscribers nationwide as at September 30, 2013. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 67% of total reported cellular subscribers nationwide as at September 30, 2013. We have interests in the BPO sector, including the operation of our customer relationship management and knowledge processing solutions business. In December 2012, our Board of Directors authorized the sale of our BPO business and our BPO segment was classified as a discontinued operation.

Our common shares are listed and traded on the PSE and our ADSs, evidenced by ADRs, are listed and traded on the NYSE in the United States.

We had a market capitalization of approximately Php643,414 million and Php546,621 million as at September 30, 2013 and December 31, 2012, respectively, representing one of the largest market capitalizations among Philippinelisted companies. We had total revenues of Php124,585 million and net income attributable to equity holders of PLDT of Php28,954 million for the nine months ended September 30, 2013. Total revenues and net income attributable to equity holders of PLDT amounted to Php163,484 million and Php36,148 million, respectively, for the year ended December 31, 2012.

We operate under the jurisdiction of the NTC, which jurisdiction extends, among other things, to approving major services that we offer and the rates that we can charge.

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is +(632) 816-8534. Our website address is *www.pldt.com.ph*. The contents of our website are not a part of this Prospectus.

### HISTORY

The Philippine Long Distance Telephone Company, or PLDT, or the Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications, beneficially owned approximately 20% of PLDT's outstanding common stock as at September 30, 2013. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific,

completed the acquisition of an approximately 46% interest in PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at October 31, 2013. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at October 31, 2013, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTFHI, a wholly-owned company of PLDT Beneficial Trust Fund subscribed to 150 million newly issued shares of voting preferred stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at September 30, 2013. See Note 19 – Equity – Voting Preferred Stock and Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition to the accompanying unaudited interim consolidated financial statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012.

On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 45 million ADSs outstanding as at October 31, 2013.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

### COMPETITIVE STRENGTHS

We believe that we can effectively compete in the telecommunications industry because of the following strengths:

- Recognized Brands
- Leading Market Shares
- Diversified Revenue Sources
- Superior Integrated Network
- Innovative Products and Services
- Strong Strategic Relationships

### STRATEGY

The key elements of our business strategy are:

- Build on our leading positions in the fixed line and wireless businesses
- Capitalize on our strength as an integrated provider of telecommunications services
- Strengthen our leading position in the data and broadband market
- Maintain a strong financial position and improve shareholder returns

Please refer to the section entitled "Description of Business" on page 65 of this Prospectus for a more detailed discussion.

### SUMMARY FINANCIAL INFORMATION

The selected financial information set forth in the following table has been derived from our unaudited interim consolidated financial statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012 and our audited consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010 prepared and re-issued to reflect the impact of new accounting standards effective January 1, 2013 with retrospective application. This should be read in conjunction with the unaudited interim consolidated financial statements and audited consolidated financial statements annexed to this Prospectus, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included herein.

The summary financial information set out below does not purport to project our results of operations or financial condition for any future period or date.

	Nine months en	ded September	Ye	ars ended December	31,
	2013	2012(1)	2012 <sup>(2)</sup>	2011 <sup>(1, 2 and 3)</sup>	2010 <sup>(1 and 2)</sup>
			(in millions)		
Income Statement Data:	Db=104.505	Db=101.000	Db=100.404	Db-140.470	Db=150.01
Revenues	Php124,585	Php121,363	Php163,484	Php148,479	Php150,81
Service revenues	121,604	119,050	160,189	145,834	148,59
Non-service revenues	2,981	2,313	3,295	2,645	2,21
Expenses	89,220	88,134	122,980	106,424	95,28
Other income (expenses)	(2,168)	3,039	3,102	(970)	(1,90
Income before income tax from continuing operations	33,197	36,268	43,606	41,085	53,62
Net income	28,995	28,359	36,099	31,218	39,82
Continuing operations	26,926	27,996	35,556	30,351	40,31
Discontinued operations	2,069	363	543	867	(48
Core income	28,786	27,690	36,907	38,616	41,59
Continuing operations	28,885	27,332	36,356	37,827	41,05
Discontinued operations	(99)	358	551	789	53
EBITDA from continuing operations	59,550	57,205	75,388	78,225	82,0
EBITDA margin <sup>(4)</sup>	49%	48%	47%	54%	55
PLDT:	100.01	101.00	107.07	101.05	010
Basic	133.81	131,20	167.07	161.05	210.
Diluted	133.81	131.20	167.07	160.91	210.
Reported earnings per share from continuing operations attributable to common equity holders of PLDT:					
Basic	124.23	129.52	164.55	156.52	213.
Diluted	124.23	129.52	164.55	156.39	213.
Core earnings per common share :					
Basic	133.03	127.99	170.58	199.39	220.
Diluted	133.03	127.99	170.58	199.22	220.
Core earnings per common share from continuing operations:					
Basic	133.48	126.33	168.03	195.27	217.
Diluted	133.48	126.33	168.03	195.10	217.
Other Data:					
Net cash flows provided by operating activities	51,605	54,822	80,370	79,209	77,2
Net cash flows used in investing activities	8,001	22,765	39,058	29,712	23,2
Capital expenditures <sup>(5)</sup>	14,888	19,294	36,396	31,207	28,7
Net cash flows used in financing activities	52,652	39,125	48,628	40,204	55,3
Operational Data					
Number of cellular subscribers	72,498,270	68,599,733	69,866,458	63,696,629	45,636,0
Number of fixed line subscribers	2,073,831	2,127,188	2.063.794	2,166,295	1.822.1
Number of broadband subscribers:	3,328,369	3,146,667	3,246,423	2,910,682	1,999.0
Fixed Line	949.762	879,237	887.399	842.273	643.0
Wireless	2,378,607	2,267,430	2.359.024	2,068,409	1.355.9
Number of employees:	18,135	19,086	19,125	19,452	1,000,0
Fixed Line	9,892	10,619	10,462	11,409	9.5
LEC	7,151	7,811	7,546	9,072	9,3 7,3
Cec	2,741	2,808	2,916	2,337	2,1
				2,337 8.043	
Wireless	8,243	8,467	8,663	0,043	5,1

	September 30,		December 31,	
	2013	2012 <sup>(2)</sup>	2011 <sup>(2 and 6)</sup>	2010(2)
Statement of Financial Position Data:				
Total assets	390,817	405,815	401,792	278,083
Property, plant and equipment	191,578	200,078	200,142	163,184
Cash and cash equivalents and short-term investments	30,374	37,735	46,615	37,347
Total equity attributable to equity holders of PLDT	139,337	145,550	153,860	97,416
Notes payable and long-term debt, including current portion	109,453	115,792	117,275	89,646
Net debt <sup>(7)</sup> to equity ratio <sup>(8)</sup>	0.57x	0.54x	0.46x	0.54x

As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations to the accompanying consolidated financial statements for a further discussion of the classification of the BPO segment as an asset held-for-sale. As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in (1)

Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion. Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, (3)

2011. (4)

EBITDA margin for the period is measured as EBITDA from continuing operations divided by service revenues.

Capital expenditures consist of additions to property, plant and equipment and interest paid – capitalized to property, plant and equipment. The December 31, 2011 comparative assets and liabilities were adjusted to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel to the accompanying consolidated financial statements for further discussion. (6)

Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt, including current portion and notes payable). Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT. (8)

Please refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" located on page 107 of this Prospectus for further details.

### **SUMMARY OF THE OFFERING**

Issuer	Philippine Long Distance Telephone Company
Issue	SEC registered fixed rate bonds constituting the direct, unconditional, unsubordinated, and unsecured obligations of PLDT.
Instrument	Seven (7) year and Ten (10) year fixed rate bonds (the "Bonds") in the aggregate principal amount of up to Ten Billion Pesos (Php10,000,000,000.00) with an over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00)
Use of Proceeds	The net proceeds of the Bonds shall be used to finance capital expenditure and/or refinance existing obligations, the proceeds of which were utilized for service improvements and expansion
Offer Price	100% of face value
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of Php50,000.00 each, and in integral multiples of Php10,000.00 thereafter.
Issue Date	February 6, 2014
Early Redemption Option	Prior to the relevant Maturity Dates, PLDT shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the following dates or the immediately succeeding Banking Day if such date is not a Banking Day: (i) For the Seven-Year Bonds – on the fifth (5th) year and one quarter and on the sixth (6th) year from the Issue Date; and (ii) For the Ten-Year Bonds – on the seventh (7th) year, on the eight (8th) year and on the ninth (9th) year from Issue Date (collectively, the relevant Early Redemption Option Dates).
	The amount payable to the Bondholders in respect of the exercise of the Early Redemption Option shall be calculated based on the principal amount of the Bonds being redeemed as the aggregate of the: (i) accrued interest computed up to the relevant Early Redemption Option Date; and (ii) the product of the

accordance with the following schedule:

		Early
	Early Redemption Option Dates	Redemption
		Option Price
7-Year	Fifth (5th) Year and One (1) quarter	101.0%
Bonds	from the Issue Date	
	Sixth (6 <sup>th</sup> ) Year from the Issue Date	100.5%
10-Year	Seventh (7th) Year from the Issue	102.0%
Bonds	Date	
	Eighth (8 <sup>th</sup> ) Year from the Issue	101.0%
	Date	
	Ninth (9 <sup>th</sup> ) Year from the Issue	100.5%
	Date	

principal amount and the applicable Early Redemption Option Price in

PLDT shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon PLDT to effect such early redemption of the Bonds on the Early Redemption Option Date stated in such notice.

Maturity Date	7-Year Bonds: Seven (7) years from Issue Date or on February 6, 2021 10-Year Bonds: Ten (10) years from Issue Date or on February 6, 2024
	Provided that, if such date is declared to be a non-Banking Day, the Maturity Date shall be the next succeeding Banking Day.
Interest Rate:	7-Year Bonds: Fixed interest rate of 5.2250% per annum 10-Year Bonds: Fixed interest rate of 5.2813% per annum
Interest and Interest Payment Dates	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrears starting on May 6, 2014 for the first Interest Payment Date, and August 6, November 6, February 6 and May 6 of each year thereafter, for as long as the Bonds remain outstanding.
	If the Interest Payment Date is not a Banking Day, interest will be paid on the next succeeding Banking Day, without adjustment as to the amount of interest to be paid.
Redemption for Taxation Purposes	If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to PLDT, PLDT may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest.
Final Redemption	Unless the Bonds shall be earlier redeemed by PLDT, the Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates.
Status of the Bonds	The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of PLDT and shall at all times rank <i>pari passu</i> and rateably without any preference or priority amongst themselves and at least <i>pari passu</i> with all other present and future unsubordinated and unsecured obligations of PLDT, other than obligations preferred by law.
Negative Pledge	The Bonds shall have the benefit of a negative pledge on all existing and future assets of the Company, subject to certain permitted liens.
Purchase and Cancellation	PLDT may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders and the Bondholders shall not be obliged to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.
Rating	The Bonds have been rated AAA by Credit Rating and Investors Services Philippines, Inc.
Listing	PLDT shall list the Bonds on the PDEx on Issue Date.
Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	BDO Capital & Investment Corporation BPI Capital Corporation First Metro Investment Corporation The Hongkong and Shanghai Banking Corporation Limited
Co-Lead Underwriters	China Banking Corporation Development Bank of the Philippines RCBC Capital Corporation SB Capital Investment Corporation
Participating Underwriter	Land Bank of the Philippines

Issue Coordinator	First Metro Investment Corporation
Registrar and Paying Agent	Philippine Depository & Trust Corporation
Trustee	Metropolitan Bank & Trust Company – Trust Banking Group
Transaction Counsel	Picazo Buyco Tan Fider & Santos Law Office

### **RISK FACTORS AND OTHER CONSIDERATIONS**

An investment in Bonds, as described in this Prospectus, involves a certain number of risks. The price of securities can and does fluctuate, and any individual security may experience upward and downward price movement and may lose part, or all, of its value over time. There is an inherent risk that losses may be incurred rather than profit, as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between buying price and the selling price of any security. The market price of the Bonds could decline due to any one of, but not limited to, the risks described herein, and all or part of an investment in the Bonds could be lost.

Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risk factors described below.

This section entitled "*Risk Factors and Other Considerations*" does not purport to be a comprehensive disclosure of all of the risks and other significant aspects of investing in these securities, but is intended to give a general idea to a prospective investor of the scope of risks involved in investing in the Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to us or that are currently considered immaterial could have a material adverse effect on our business, results of operations, financial condition and prospects and on the Bonds in the future. Prospective investors may request publicly available information on the Bonds and the Company from the SEC. Prospective investors should undertake their own independent research and study on the merits of investing, and subsequently, trading these securities. Prospective investors should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Bonds. PLDT, the Joint Issue Managers, and the Joint Lead Underwriters do not make any warranty of representation on the marketability of an investment in the Bonds and the sustainability of the price of the Bonds. The risk factors discussed in this section are separated into categories for ease of reference.

### RISK FACTORS RELATING TO THE COMPANY AND ITS BUSINESS

## We face competition from well-established telecommunications operators and may face competition from new entrants, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

In 1993, the Philippine government liberalized the Philippine telecommunications industry and opened the Philippine telecommunications market to new entrants. At present, following the acquisition of the Digitel Group by PLDT, the number of major players in the industry has been reduced to three major LECs, eight IGF providers and two major cellular operators in the country. Many entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technology and funding support, as well as service innovations and marketing strategies. We cannot assure you that the number of providers of telecommunications services will not increase in the future or that competition for customers will not cause our cellular and fixed line subscribers to switch to other operators, or otherwise cause us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry is particularly intense, with network coverage, quality of service, product offerings, and price dictating subscriber preference. Recently, operators have grown more aggressive in maintaining and growing market share, especially in light of a maturing market. Our principal cellular competitor, Globe, has introduced aggressive marketing campaigns and promotions, such as unlimited voice and SMS offers. In the same way, Smart and DMPI are also continuously innovating their products and conducting promotions, which may affect their cellular revenue growth. Specifically, in response to the unlimited voice and text offers by Globe, Smart introduced promotions allowing Smart and *Talk 'N Text* subscribers to avail of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate. DMPI, on the other hand, strengthened its unlimited plans through improved handset bundle offerings. Due to competition from other well-established telecommunications operators, we cannot assure you that the additional marketing expenses incurred by us for these promotions, nor can we assure you that, in response to rate pressures from our competitors, the potential loss of customers, decrease in rates or the increase in capital expenditures required for our continued capacity expansion necessary to accommodate the continued increases expected in call and text volumes as a result of unlimited voice and text offers, will not have a material adverse effect on our business, results of operations, financial condition and prospects.

### The cellular telecommunications industry may not continue to grow.

The majority of our total revenues are currently derived from the provision of cellular services to customers in the Philippines. As a result, we depend on the continued development and growth of this industry in the Philippines. The cellular penetration rate in the country, however, has already reached an estimated 110% as at September 30, 2013, counting for multiple SIM card ownership, thus the industry may well be considered mature. Further growth of the market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer tastes and preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services or otherwise cause Philippine cellular telecommunications industry to stop growing or reduce the rate of its growth, could materially harm our business, results of operations, financial condition and prospects.

# Our results of operations have been, and may continue to be, adversely affected by competition in, and the introduction of new services, which could put additional pressures on the traditional international and national long distance services.

The international long distance business has historically been one of our major sources of revenue. However, due to competition, the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, and the growing popularity of the so-called "over-the-top" service providers that offer social networking, instant messaging and VoIP services, revenues generated from our international long distance business have declined in recent years.

Revenues from international long distance services could continue to decline in the future for a variety of reasons, such as:

- increase in competition from other domestic and international telecommunications providers;
- advances in technology;
- the growing popularity of alternative providers offering "over-the-top" services like social networking, instant messaging, internet telephony, also known as VoIP services; or
- alternative providers of broadband capacity.

The continued high cellular penetration in the Philippines and the prevalence of SMS have negatively impacted our national long distance business in recent years. Moreover, net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries, which have been our predominant source of foreign currency revenues, have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from any possible future declines in the value of the Philippine peso against the U.S. dollar. As a result, we cannot assure you that we will be able to adequately increase our other revenues to make up for any adverse impact of a further decline in our net settlement payments. We cannot assure you that we can generate new revenue streams to fully offset the declines in our traditional fixed line long distance businesses, thus, our revenues and profitability could be materially reduced and our growth and prospects could suffer.

### Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes, and laws relating to anti-competitive practices and monopoly.

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and CPCNs, which have been granted by the NTC and will expire between now and 2028. Some of PLDT's CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decision on these applications. Because PLDT filed the applications for extension on a timely basis, we expect that these applications will be granted. However, we cannot assure you that the NTC will grant these applications. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart's franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted. DMPI's CPCN to operate and maintain a nationwide CMTS is for a period coterminous with the life of its existing franchise which is valid until December 11, 2027, 25 years after the date of its issuance.

The NTC also regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that

could lead to the revocation of our licenses if not adhered to and/or to the reduction in our total revenues or profitability. In addition, the NTC could adopt changes to the regulations or implement additional guidelines governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers. The occurrence of any of which could materially reduce our revenues and profitability.

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that the PLDT Group will not be subject to new, increased and/or additional taxes and that the PLDT Group would be able to impose or pass on additional charges or fees to its customers to compensate for the imposition of such taxes. House Bill No. 701 proposes to require all telecommunication companies to secure business permits and licenses from the local government unit where their respective cell sites are located. If any of these bills are enacted into law, such legislation could materially reduce our profitability and have a material adverse effect on our results of operations and financial condition. We cannot assure you that the PLDT Group will be able to impose additional charges or fees on its customers to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

Moreover, as one of the leading telecommunications service providers in the Philippines for fixed line, cellular and broadband services, we are subject to laws and regulations relating to anti-competitive practices and anti-monopoly. For example, Section 700 of NTC Memorandum Circular No. 8-9-95 requires us to seek the approval of the NTC with respect to rates of non-deregulated services in order to ensure that a healthy competitive environment is fostered within the industry. Also, Article II, Section 4 (g) of Republic Act, or R.A., No. 7925 makes it the policy of the government to pursue a fair and reasonable interconnection of authorized public network operators and other providers of telecommunications services in order to achieve a viable, efficient, reliable and universal telecommunications services. The executive branch of the Government has also exhibited strong interest in enforcing anti-competitive and anti-monopolistic measures with the signing by the President of the Philippines of E.O. No. 45 on June 9, 2011. E.O. No. 45 designated the Department of Justice, or the DOJ, as the Competition Authority and established the Office for Competition under it, to among others, investigate violations of competition laws and prosecute violators thereof. The DOJ's Department Circular No. 11 implementing E.O. No. 45 took effect on March 1, 2013. While our business practices have not in the past been found to have violated any laws and regulations related to anti-competition and anti-monopoly, we cannot assure you that the relevant governmental regulators will not, in the future, find our business practices to have an anti-competitive effect on the Philippine telecommunications industry, nor can we assure you that we will not be found to have violated the relevant laws and regulations relating to anti-competition and anti-monopoly in the future. For example, prior to the acquisition of the Digitel Group, there were four major LECs (PLDT, Digitel, Innove Communications, Inc. and Bayan) and three cellular service providers (Smart, DMPI and Globe) in the Philippines. On October 26, 2011, we completed the acquisition of the Digitel Group, the operator of Sun Cellular, one of the two other major cellular service providers in the Philippines. As a result of the acquisition, the number of LECs and cellular service providers in the Philippines was reduced to three and two, respectively, leaving Globe as our sole major competitor in the cellular service market. In order to mitigate the apparent anti-competitive effect of the acquisition, we agreed, as part of the NTC's decision to grant its consent for the acquisition, to divest ourselves of the frequency spectrum and associated licenses held by CURE, one of Smart's subsidiaries. Any future expansion in our services, particularly in our cellular services, could subject us to additional conditions in the granting of our provisional authorities by the NTC and to increased regulatory scrutiny, which could harm our reputation and business, and which could have a material adverse effect on our growth and prospects. In addition, the occurrence of any such event could impose substantial costs or cause interruptions or considerable delays in the provision, development or expansion of our services. Delay or failure to receive any required franchises, licenses or regulatory approvals could result in the suspension of our services or abandonment of any planned expansions, thereby affecting our business, results of operations, financial condition and prospects.

# The NTC may implement proposed changes in existing regulations and introduce new regulations, which may result in increased competition and/or changes in rates, each of which could have a material adverse effect on our revenues and profitability.

The NTC may regulate the rates we charge our customers and the manner in which we operate.

On July 23, 2009 the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart and DMPI, to bill subscribers on a maximum six-second per pulse basis instead of the previous per minute basis. The NTC granted Smart and DMPI the provisional authority to charge new rates for the CMTS service and also directed Smart and DMPI to implement a six-second per pulse billing scheme on December 5, 2009. The implementation of this billing scheme is now pending with the Philippine Supreme Court after Smart and DMPI filed their petitions for review of the decision of the Court of Appeals on March 15, 2012 and March 12, 2012, respectively.

On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 directing the reduction of interconnection charges for SMS between two separate networks from Php0.35 to Php0.15 per SMS. This circular required a reduction in SMS charges charged to end users. Therefore, the NTC initiated administrative cases against the mobile operators for the latter's failure to implement reduced SMS charges.

The NTC may call on carriers, other industry players and the public in general to public hearings with respect to certain proposed regulations affecting the industry in general or solicit comments from said parties with respect to consultative documents issued by the NTC on major industry issues, like the August 2006 significant market power, or SMP, obligations, which were revived during the pendency of PLDT's acquisition of the Digitel Group in 2011. Under the said consultative documents, for example, certain obligations are proposed to be imposed on carriers with SMP by using a roadmap which consists of the following critical processes: (1) defining markets to be used as basis for regulatory intervention; (2) determining if one or several operators in the defined markets have the degree of market power that merits regulatory intervention; (3) identifying appropriate SMP obligations to achieve policy objectives; and (4) determining conditions that justify withdrawal of regulation.

On July 15, 2011, the NTC issued Memorandum Circular No. 7-7-2011 which required broadband service providers to specify the minimum broadband/internet connection speed and service reliability and the service rates in advertisements, flyers, brochures and service agreements. The said Memorandum Circular also set the minimum service reliability of broadband service to 80%.

On December 19, 2011, the NTC issued a Decision in NTC ADM Case 2009-048 which lowered the interconnection charge to/from LEC and to/from CMTS to Php2.50 per minute, from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, making it in parity with each other. PLDT and Smart separately filed their respective Motions for Reconsideration which the NTC denied. The parties appealed to the Court of Appeals, reiterating among others, that the NTC erred in ruling that all LECs are automatically entitled to cross-subsidy; that the NTC decision violates PLDT's and Smart's right to due process; and that the NTC decision violates the Constitutional proscription against non-impairment of contracts. PLDT's and Smart's petitions remain pending with the Court of Appeals. Meantime, the Philippine Association of Private Telecommunications Companies, Inc. has filed a motion for the execution of the NTC decision before the NTC, which motion, likewise, remains pending.

A summary of the existing material regulations on our business is set forth in the section "*Description of Business – Material Effects of Regulation on our Business*". Due to the regulatory power of the NTC, as described above, we cannot assure you that the NTC will not impose changes to the current regulatory framework in the future, which could lead to increased competition or negatively affect the rates we can charge for our services. Any of these events could have a material adverse effect on our business, results of operations and prospects.

## The franchise of Smart and DMPI may be revoked due to their failure to conduct a public offering of their shares.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act of the Philippines, or R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges, representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law first becomes effective; or (b) the entity's first start of commercial operations, whichever date is later. As of the latest practicable date, Smart and DMPI have yet to conduct a public offering of their shares. Consequently, the Philippine Congress may revoke the franchise of Smart and DMPI for their failure to comply with the requirement under R.A. 7925 on the public offering of their shares. A *quo warranto* case may also be filed against Smart and DMPI by the Office of the Solicitor General of the Philippines for the revocation of the respective franchises of Smart and DMPI on the ground of violation of R.A. 7925.

The position taken by Smart and DMPI is that such provision is merely directory and that the policy underlying the requirement for telecommunication entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000 and majority ownership of Digitel in 2011, which in turn owned 100% equity interest in DMPI, since PLDT was then and continues to be a publicly listed company. There can be no assurance, however, that the Philippine Congress will agree with such position. In September 2004, Senate Bill No. 1675 was filed seeking to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. However, we cannot assure you that such bill will be enacted or that the Philippine Congress will not revoke the franchise of Smart and DMPI or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart and DMPI for the revocation of their respective franchises for failure to comply with the provision under R.A. 7925 on the public offering of shares, the occurrence of any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we fail to effect the divestment of CURE in accordance with the terms of, or in a manner contemplated under the NTC's approval of our acquisition of the Digitel Group, the NTC may revoke its approval of any relevant franchises, licenses or permits held by Smart, any of which could significantly disrupt our operations and have a material adverse effect on our business, results of operations, financial condition and prospects.

As part of the NTC's decision to grant its consent to our acquisition of the Digitel Group, we agreed to divest ourselves of the frequency spectrum and associated franchises, licenses and permits held by CURE. Under the terms of the order issued by the NTC on October 26, 2011, (i) CURE must sell its *Red Mobile* business to Smart; and (ii) Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, certain frequency spectrum and related permits.

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, such that, except for assets necessary to pay off obligations due after June 30, 2012 and certain tax assets, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, 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 an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC proposed the referral to commissioners of the computation of the CRA due Smart. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE. See Note 2 – Summary of Significant Accounting Policies – Divestment of CURE and Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – Digitel's Acquisition to the accompanying consolidated financial statements for further discussion.

However, we cannot assure you that we will be able to effect the divestment of CURE within the time or in a manner contemplated under the order issued by the NTC. If we fail to effect the divestment of CURE in accordance with the terms of, or in a manner contemplated under the NTC's approval of our acquisition of the Digitel Group, the NTC may revoke its approval or any relevant franchises, licenses or permits held by Smart, any of which could significantly disrupt our operations and have a material adverse effect on our business, results of operations, financial condition and prospects.

# Rapid changes and advancements in telecommunications technology may adversely affect the economics of our existing businesses and the value of our assets, increase our required capital expenditures and create new competition.

The global telecommunications industry has been characterized by rapid technological changes and advancements, and the Philippine market is not an exception. We cannot assure you that these developments will not result in competition from providers of new telecommunications services or the need to make substantial capital expenditures to transform our existing network infrastructure. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, for which we have made significant investments in the rolling-out of these services. We are also continuing to upgrade our fixed-line network to a next generation, all-IP network and rolling out a wireless broadband network in order to expand our capability to provide broadband services, as well as upgrade and modernize our wireless cellular network in order to achieve greater operating and cost-efficiencies. However, these projects require and will continue to require significant capital expenditures over the next few years.

In addition, we now face growing competition not just from other telecommunications operators, but also from the so-called "over-the-top" service providers that offer social networking, instant messaging and VoIP services.

Our future success will depend on our ability to anticipate and adapt to these changes and to offer services that meet demands of our customers on a competitive and timely basis. However, we may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to our business model, negatively impact our existing businesses or necessitate new acquisitions or investments. In addition, new products and services may be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require us to incur significant additional capital expenditures. As a result, we cannot assure you that we would be able to adopt or successfully implement new technologies, nor can we assure you that future technological changes will not adversely affect our operations or the competitiveness of our services.

## We may not be successful in our acquisitions of, and investments in, other companies and businesses, and may therefore be unable to fully implement our business strategy.

As growth slows or reverses in our traditional fixed line and cellular businesses, and as part of our strategy to grow other business segments, we make acquisitions and investments in companies or businesses to enter new businesses or defend our existing markets. Since 2010, we have made a number of significant acquisitions, investments in businesses within and ancillary to the telecommunications sector, including an investment in shares of Meralco through PCEV in 2010, the acquisition of the Digitel Group in 2011 and an investment in PDRs of MediaQuest, the ultimate parent company of Cignal TV, a direct-to-home pay-TV business, in 2012 and other smaller investments in various businesses. The success of our acquisitions and investments depends on a number of factors, such as:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments and we cannot assure you that the consummation of such acquisitions and investments will not result in losses for us for a prolonged period of time. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to fully implement our business strategy to maintain or grow certain of our businesses and our results of operations and financial position could be materially and adversely affected.

# If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to maintain our current market share and the quality of our services, which could have a material adverse effect on our results of operations and financial condition.

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to a number of risks and uncertainties, such as:

- shortage of equipment, materials and labor;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from properly maintaining the equipment used in our networks, and hence could affect our ability to maintain existing services and roll-out new services, for example, which could have a material adverse effect on our results of operations and financial condition.

## Our businesses depend on the reliability of our network infrastructure which is subject to physical, technological and other risks.

We depend, to a significant degree, on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include but are not limited to:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

The occurrence of any of these risks could have a material adverse effect on our ability to provide service to customers. While we are undertaking initiatives to prevent and/or mitigate the occurrence of said risks, including the preparation of a disaster recovery plan that aims to allow restoration of service at the earliest possible time from occurrence of an incident, there can be no assurance that these risks will not occur or that our initiatives will be effective should such risks occur.

# We are exposed to cyber security risks, which may include the gaining of unauthorized access, data corruption, possible theft of intellectual property, stakeholder information or other sensitive data, the occurrence of any of which could significantly disrupt our business and have a material adverse effect on our results of operations and stakeholder confidence.

Over the years, our continued dependence on the latest digital technologies in conducting our operations exposes our business to risks associated with cyber incidents. These cyber incidents may range from unintentional events to deliberate attacks. These may be carried out by parties with the intention to bring about something as simple as plain disruption of our operations to something as destructive as breaching our network security. To date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, resulted in material impact on our operations or financial condition. However, some network attacks can cause our telecommunications services of internal systems to be unavailable. Others can disrupt our business communication, such as spam. Moreover, others can cause the disclosure of confidential information, such as brute force attack.

In order to minimize our exposure to cyber security risks, we have deployed a multi-layered defense from the network to the host and up to the application level, so that if one defensive measure fails, there are other defensive measures which will continue to provide protection. However, we cannot assure you that any of such defenses will be effective against or neutralize the effects of any cyber incidents resulting from unintentional cyber security breaches or deliberate attacks on our network infrastructure or computer systems, nor can we assure you that our business will not be significantly disrupted in the event of such security breach or attack. If we fail to timely and effectively prevent the occurrence of any such cyber security incidents, or fail to promptly rectify any such incidents, our business could be significantly disrupted, our results of operations could be materially and adversely affected, and the confidence of our stakeholders could be lost.

### Our businesses require substantial capital investment, which we may not be able to finance.

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart's projects, networks, platforms and services, require substantial ongoing capital investment. Our consolidated capital expenditures totaled Php14,888 million and Php19,294 million in the first nine months of 2013 and 2012, respectively, and Php36,396 million, Php31,207 million and Php28,766 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our 2013 estimated consolidated capital expenditures is approximately Php29 billion, of which approximately Php16 billion is estimated to be spent by Smart, approximately Php12 billion is estimated to be spent by PLDT, approximately Php500 million is estimated to be spent by DMPI; and the balance represents the estimated capital spending of our other subsidiaries. Smart's capital spending is focused on building out its coverage, leveraging the capabilities of its newly modernized network, expanding its transmission network, increasing international bandwidth capacity and expanding its 3G and wireless broadband networks in order to enhance its data /broadband capabilities. Smart is also enhancing its network and platforms infrastructure and systems to support solutions deployment, campaign analytics and service delivery platform to enable

customized and targeted services. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructure and for its fixed line data services and the maintenance of its network. DMPI's capital spending is intended principally to finance its mainstream services and integration with the PLDT Group network of its core and transmission network to increase penetration, mainly in provincial areas to achieve greater business benefits from a closely synergized environment.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us, or at all. If we cannot complete our development programs or other capital projects on time due to our failure to obtain the required financing, our growth, results of operations, financial condition and prospects could be materially and adversely affected.

## Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations and service our other debts.

As at September 30, 2013 and December 31, 2012, our consolidated total debt amounted to Php109,453 million, or US\$2,514 million, and Php115,792 million, or US\$2,819 million, respectively, and accounted for 0.8 times debt to equity ratio, calculated as total debt on a consolidated basis, divided by total equity attributable to equity holders of PLDT. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios and other financial tests, calculated on the basis of PFRS at relevant measurement dates, principally at the end of each quarter period. For a description of some of these covenants, see *Note 20 – Interest-bearing Financial Liabilities* to the accompanying consolidated financial statements.

Our indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, we may be required to dedicate a substantial portion of our cash flow to payments on our indebtedness, which could reduce the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements.

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expenses. Of our total consolidated debts, 54% and 45% were denominated in foreign currencies as at September 30, 2013 and December 31, 2012, principally in U.S. dollars. Many of these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso.

We have maintained compliance with all of our financial ratios and covenants, as measured under PFRS, under our loan agreements and other debt instruments. However, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants. Inability to comply with the financial ratios and covenants could result in a declaration of default and acceleration of maturities of some or all of our indebtedness.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness, which could have a material adverse effect on our business, results of operations and financial condition.

## Our results of operations and our financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar.

A substantial portion of our indebtedness, related interest expenses, our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, whereas most of our revenues are denominated in Philippine pesos. As at September 30, 2013, 54% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 46% of our total consolidated indebtedness were unhedged. As at December 31, 2012, approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 38% of our total consolidated indebtedness were unhedged.

A depreciation of the Philippine peso against the U.S. dollar would increase the amount of our U.S. dollar denominated debt obligations and operating and interest expenses in Philippine peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in Philippine peso terms. Moreover, a depreciation

of the Philippine peso against the U.S. dollar may result in our recognition of significant foreign exchange losses, which could materially and adversely affect our results of operations. A depreciation of the Philippine peso could also cause us not to be in compliance with the financial covenants imposed on us by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments, which were designated as non-hedged items.

Approximately 21% and 12% of the PLDT Group's consolidated service revenues and expenses, respectively, are either denominated in U.S. dollars and/or are linked to the U.S. dollar for the nine months ended September 30, 2013. Approximately 27% and 16% of the PLDT Group's consolidated service revenues and expenses, respectively, are either denominated in U.S. dollars and/or are linked to the U.S. dollar for the year ended December 31, 2012. In this respect, an appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreases our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso has been subject to significant fluctuations in recent years. From 2003 to 2004, the Philippine peso depreciated from a high of Php52.02 on May 8, 2003 to a low of Php56.44 on October 14, 2004. While the Philippine peso appreciated in 2005, 2006 and 2007, it depreciated in 2008 to a low of Php49.98 and closed at Php47.65 as at December 31, 2008. From 2009 to 2012, the Philippine peso appreciated from Php47.26 as at January 5, 2009 to Php41.08 as at December 31, 2012 and a high of Php40.86 on December 5, 2012, only to depreciate by approximately 6% to Php43.54 as at September 30, 2013. We cannot assure you that the Philippine peso will not depreciate further and be subject to significant fluctuations going forward, due to a range of factors, including:

- a. political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- b. global economic and financial trends;
- c. the volatility of regional currencies, particularly the Japanese yen;
- d. any interest rate increases by the Federal Reserve Bank of the United States; and
- e. changes in the value of the U.S. dollar relative to Philippine peso, resulting from events such as higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations or foreign exchange traders including banks covering their short U.S. dollar positions, among others.

# Our subsidiaries could be limited in their ability to pay dividends to us due to internal cash requirements and their creditors having superior claims over their assets and cash flows, which could materially and adversely affect our financial condition.

A majority of our total revenues and cash flow from operations is derived from our subsidiaries, particularly Smart. Smart has significant internal cash requirements for debt service, capital expenditures and operating expenses and as a result, may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT regularly since December 2002, there can be no assurance that PLDT will continue to receive these dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries generally have priority claims over our subsidiaries' assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor with respect to loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed superior to the indebtedness we hold.

We may have difficulty meeting our debt payment obligations if we do not continue to receive cash dividends from our subsidiaries and our financial condition could be materially and adversely affected as a result.

## A significant number of PLDT's shares are held by three shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT.

The First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at October 31, 2013, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition. This is the largest block of PLDT's common stock

that is directly or indirectly under common ownership.

Pursuant to publicly available filings made with the PSE, as at October 31, 2013, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock, taking into account shares purchased from JGSHI pursuant to an option agreement in connection with the Digitel acquisition.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at October 31, 2013, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DOCOMO and PLDT entered into a Cooperation Agreement, dated January 31, 2006, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, or the Strategic Agreement, and the Shareholders Agreement dated March 24, 2000, or the Shareholders Agreement, were extended to NTT DOCOMO. See "Security Ownership of Certain Beneficial Owners, Directors and Executive Officers" for further details regarding the shareholdings of NTT Communications and NTT DOCOMO in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DOCOMO, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US\$50 million;
- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US\$25 million in the case of all investments in any existing investees and US\$100 million in the case of all investments in any new or existing investees, determined on a rolling monthly basis;
- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US\$10 million in the case of an existing investee and US\$50 million in the case of a new investee;
- issuance of common stock or stock that is convertible into common stock;
- new business activities other than those we currently engage in; and
- merger or consolidation.

Moreover, as a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties and/or, NTT Communications and/or NTT DOCOMO are able to influence our actions and corporate governance, including:

- election of PLDT's directors; and
- approval of major corporate actions, which require the vote of common stockholders.

Additionally, pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:

- NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the board of directors of each of PLDT and Smart;
- PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of
  PLDT or certain of its committees of any proposal of investment in an entity that would primarily
  engage in a business that would be in direct competition or substantially the same business
  opportunities, customer base, products or services with business carried on by NTT DOCOMO, or
  which NTT DOCOMO has announced publicly an intention to carry on;
- PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

• PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer of Smart's common capital stock by any member of the PLDT Group to any person who is not a member of the PLDT Group.

The FP Parties and/or NTT Communications and/or NTT DOCOMO may exercise their respective influence over these decisions and transactions in a manner that could be contrary to the interests of other shareholders or stakeholders in PLDT.

# Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could adversely impact investor confidence and the market price of our common shares and ADSs, and have a material adverse effect on our business, our reputation, financial condition and results of operations.

Effective internal control over financial reporting is necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we are unable to provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

We are required to comply with various Philippine and U.S. laws and regulations on internal control. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the calendar year ended December 31, 2006, we have been required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management on the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must express an opinion on our internal control over financial reporting based on its audits.

However, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our business, our reputation, financial condition and results of operations, and the market prices of our common shares and ADSs could decline significantly.

### We are unionized and are vulnerable to work stoppages, slowdowns or increased labour costs.

As at September 30, 2013, PLDT has three employee unions, representing in the aggregate 4,827, or 27%, of the employees of the PLDT Group. This unionized workforce could result in demands that may increase our operating expenses and adversely affect our profitability. Each of our different employee groups may require separate collective bargaining agreements. If any group of our employees and PLDT are unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events would be disruptive to our operations and could harm our business.

## Adverse results of any pending and future litigation and disputes may impact PLDT's future cash flows, results of operations and financial condition.

PLDT is currently involved in several legal proceedings in the Philippines. Since 1990, PLDT and Eastern Telecommunications Philippines, Inc. (ETPI) have been engaged in legal proceedings involving a number of issues in connection with their business relationship. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI agreed in April 2008 to submit their differences and issues to voluntary arbitration. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

For more information on PLDT's legal proceedings, see "Legal Proceedings." While PLDT believes the positions it has taken in these cases are legally valid, the final results of these cases may prove to be different from its expectations. In addition, there is no assurance that PLDT will not be involved in future litigation or other disputes, the results of which may materially and adversely impact its business and financial conditions.

### **RISKS RELATING TO THE PHILIPPINES**

#### PLDT's business may be adversely affected by political, social or economic instability in the Philippines.

The Philippines is subject to political, social and economic volatility that, directly or indirectly, could have a material adverse impact on our ability to sustain our business and growth.

The Philippines has from time to time experienced severe political and social instability, including acts of political violence. On December 12, 2011, the Philippine House of Representatives initiated impeachment proceedings against Renato Corona, then Chief Justice of the Supreme Court of the Philippines. The impeachment complaint accused Corona of improperly issuing decisions that favored former President Gloria Macapagal-Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials. The trial of Chief Justice Corona began in January 2012. On May 29, 2012, the impeachment court found Corona guilty of failing to disclose to the public his statement of assets, liabilities and net worth and removed Corona from his position as Chief Justice of the Supreme Court of the Philippines.

More recently, a major Philippine broadsheet exposed a scam relating to the diversion and misuse of the Priority Development Assistance Fund by some members of Congress through a pseudo-development organization headed by Janet Lim Napoles. As a result of this exposé, a number of investigations, including one in the Senate of the Philippines, have been launched to determine the extent of the diversion of the Priority Development Assistance Fund and the government officials and the private individuals responsible for the misappropriation of public funds. Cases of plunder and malversation of public funds are now pending against Janet Lim Napoles, three (3) senators, a few members of the House of Representatives, and other private individuals.

We cannot assure you that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies that are conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the telecommunications and other companies.

## If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected.

The Government has, in the past, instituted restrictions on the conversion of the Philippine peso into foreign currencies and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.

We cannot assure you that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

#### The occurrence of natural catastrophes could materially disrupt our operations.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, the latest of which was the devastation brought about by Typhoon Yolanda, the world's strongest typhoon to date which caused massive destruction in the Visayan provinces; floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated by the effects of the ongoing global climate change. We cannot assure you that we are fully capable to deal with these situations and that the insurance coverage we maintain will fully compensate us for all the damages and economic losses resulting from these catastrophes.

## Continued terrorist activities in the Philippines could destabilize the country, adversely affecting our business environment.

Certain islands in the Philippines have been subject to a number of terrorist attacks and violent crimes in recent years. An increase in the number of terrorist attacks or violent crimes, or the occurrence of a large-scale terrorist attack, in the Philippines could negatively affect the Philippine economy and, therefore, our business, financial position and financial performance. The Philippine army has been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for kidnapping and terrorist

activities in the Philippines. There has been a series of bombings in the Philippines, mainly in southern cities and provinces. Although no one has claimed responsibility for these attacks, Philippine military officials have stated that the attacks appeared to be the work of the Abu Sayyaf organization. There have also been a number of violent crimes in the Philippines, including an isolated incident in August 2010 involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists and prompted the Hong Kong government to declare a travel warning on the Philippines. On January 25, 2011, five people were killed and thirteen were injured when an improvised mortar bomb triggered by a mobile phone exploded on a bus in Makati City. In August 2013, a series of bombings occurred in the cities of Cagayan de Oro and Cotabato City, and in other areas in Maguindanao and North Cotabato provinces, all located in Mindanao. Early in September 2013, an alleged splinter group of the Moro National Liberation Front took hostages in Zamboanga and initiated an armed aggression versus the Armed Forces of the Philippines. While the Zamboanga standoff situation is improving, the conflict is not yet fully resolved.

There can be no assurance that the Philippines will not be subject to further, or an increased number of, acts of terrorism or violent crimes in the future. Terrorist attacks and violent crimes have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, our business, financial position and financial performance. Furthermore, there can be no assurance that the Philippines will not suffer a large-scale terrorist attack which could impact the Philippine economy for a significant period of time.

## Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings. In May 2013, the Philippine Coast Guard shot and killed a Taiwanese fisherman in an area of the South China Sea claimed as an exclusive economic zone by both countires.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and an initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and our operations could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect our business, financial position and financial performance.

## Corporate governance and disclosure standards in the Philippines may be less stringent than those in other countries.

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in certain other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may also be less stringent than those applicable in certain other jurisdictions. For example, the SRC requires publicly listed companies to have at least two independent directors or such number of independent directors as is equal to 20% of its board of directors. PLDT currently has three independent directors. Many other countries require a significantly greater number of independent directors. Further, rules and policies against self-dealing and those regarding the preservation of Bondholder interests may be less well-defined and enforced in the Philippines than elsewhere.

## The relatively low credit ratings of the Philippines may restrict the access to capital of Philippine companies, including PLDT.

Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by Fitch and Standard & Poor's to the investment-grade rating of BBB-, and by Moody's to the investment-grade rating of Baa3, the continued relatively low sovereign ratings of the Government will directly and adversely affect companies domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Fitch, Moody's, Standard & Poor's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies, including PLDT. Any such downgrade could have an adverse impact on liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including PLDT, to raise additional financing, and the interest rates and other commercial terms at which such additional financing is available.

### **RISKS RELATING TO OUR SECURITIES**

PLDT is required to comply with the foreign ownership restriction under the Philippine Constitution. At present, PLDT believes it has complied with such restriction through the issuance of 150 million shares of its Voting Preferred Stock to BTFHI. There can be no assurance that further interpretations of such law will not require further actions to procure compliance with the foreign ownership restriction under the Philippine Constitution.

Section 11, Article XII of the 1987 Philippine Constitution provides that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens. On June 28, 2011, the Philippine Supreme Court promulgated a decision in the case of *Wilson P. Gamboa vs. Finance Secretary Margarito B. Teves, et. al. (G.R. No. 176579)* (the "*Gamboa Case*"), where it ruled that the term "capital" in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares).

On October 16, 2012, BTFHI, an indirect wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, created pursuant to PLDT's benefit plan, subscribed for 150 million newly issued shares of Voting Preferred Stock of PLDT. As a result of the issuance of the shares of Voting Preferred Stock, PLDT's foreign ownership decreased from 58.4% of outstanding common stock as at October 15, 2012 to 34.5% of outstanding voting stocks (common stock and Voting Preferred Stock) as at October 16, 2012.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of September 30, 2013, PLDT's foreign ownership was 32.67% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.95% of its total outstanding capital stock. Thus, we believe that as of the date of this report, PLDT is in compliance with the requirement of Section 11, Article XII of the 1987 Constitution. See *Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition* to the accompanying consolidated financial statements for further discussion.

However, we cannot assure you that the Philippine SEC or the relevant authorities in the Philippines will view shares of Voting Preferred Stock issued to BTFHI as shares of stock owned by Filipinos entitled to vote in the election of directors for the purpose of determining whether PLDT is in compliance with the 60% to 40% Filipino-alien equity requirement as provided under the Philippine Constitution. As a result, PLDT may be subject to certain sanctions imposed by the Philippine SEC.

### **RISKS RELATING TO THE BONDS**

### PLDT may be unable to redeem the Bonds

At maturity, PLDT will be required to redeem all of the Bonds. At that point in time, PLDT may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by PLDT would constitute an event of default under the

Bonds, which may also constitute a default under the terms of other indebtedness of PLDT.

PLDT has a strong and stable business in the Philippines. It has strong recurring cash flows, maintains a healthy debt-equity ratio, and maintains a stable level of liquidity in its statement of financial position. PLDT is confident that it can service the interest and redeem the Bonds at maturity and/or seek refinancing facilities.

### Liquidity Risk

The Philippine debt securities markets, particularly the market for corporate debt securities, are substantially smaller, less liquid and more concentrated than other securities markets. PLDT cannot guarantee whether an active trading market for the Bonds will develop or if the liquidity of the Bonds will be sustained throughout its life. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. There is no assurance that the Bonds may be easily disposed of at prices and volumes at instances best deemed appropriate by their holders.

### **Reinvestment Risk**

Prior to the relevant Maturity Dates, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant Early Redemption Option Dates (see "Description and Terms and Conditions of the Bonds – Early Redemption Option" on page 48 of this Prospectus). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company will pay the amounts to which Bondholders are entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

### Pricing Risk

The market price of the Bonds will be subject to market and interest rate fluctuations, which may result in the investment being appreciated or reduced in value. If market interest rates decrease relative to the Interest Rate of the Bonds, the price of the Bonds, when sold in the secondary market, may increase. Conversely, if market interest rates increase relative to the Interest Rate of the Bonds, the price of the Bonds, when sold in the secondary market, may increase. Thus, a Bondholder could face possible losses if he decides to sell in the secondary market.

### Retention of Ratings Risk

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

### Bonds have no Preference under Article 2244(14) of the Civil Code

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference or priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or Bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds.

### PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment of a Bondholder may vary depending upon such Bondholder's particular situation, and certain Bondholders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

### PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less, during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

### TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

Subject to the filing of a tax treaty relief application with the Philippine Bureau of Internal Revenue, the foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident recipient of the interest. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

### TAX-EXEMPT STATUS

Bondholders who are exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, the Joint Issue Managers and the Underwriters (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) certified true copy of the tax exemption certificate issued by the BIR; (ii) a duly notarized undertaking, in prescribed form, executed by (a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify PLDT and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificate and agreeing to indemnify and hold PLDT free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and

(iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by PLDT to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or Government charges, subject to the submission by the Bondholder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar.

Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with non-tax exempt entities shall be treated as non-tax exempt entities for the interest period within which such transfer occurred. Transfers taking place in the Register of Bondholders after the Bonds are listed on the PDEx shall be allowed between non-tax exempt and tax exempt entities without restriction and observing the tax exemption of tax exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of the PDEx and PDTC.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents, specified under the Section entitled "*Payment of Additional Amounts; Taxation*," within three days of such transfer.

### VALUE-ADDED TAX

Gross receipts arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities and lending investors shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less cost of the securities sold.

### GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period referred to above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

### DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of Php1.00 for each Php200, or fractional part thereof, of the offer price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. All applicable documentary stamp taxes on the original issue shall be paid by PLDT for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

### TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

### Income Tax

The Bondholder will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such Bondholder's basis in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Bondholder has held the Bonds as capital assets.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty, subject to the filing of a tax treaty relief application with the Philippine Bureau of Internal Revenue, or if they are sold outside the Philippines.

### Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over Php200,000. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed Php100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

# **USE OF PROCEEDS**

The net proceeds from the issue of the Bonds, without the over-subscription option (after deduction of fees, commissions and expenses) is approximately Php9,896,084,375. Assuming the over-subscription option of up to Php5,000,000,000 is fully exercised, PLDT expects total net proceeds of approximately Php14,853,584,375 after fees, commissions and expenses.

Net proceeds from the Offering are estimated to be at least as follows:

For a Php10.0 billion issuance:

Estimated proceeds from the sale of the Bonds		Php10,000,000,000
Less: Estimated upfront expenses		
Documentary stamp tax	Php50,000,000	
SEC registration fee and legal research fee	4,355,625	
Underwriting fees	30,000,000	
Professional fees	17,700,000	
Listing application fees	200,000	
Registry and paying agency fees	375,000	
Trustee fees	50,000	
Marketing, printing and publication expenses	1,235,000	103,915,625
Estimated net proceeds to PLDT for a Php10.0 billion issuance		Php9,896,084,375
For a Php5.0 billion over-subscription option:		
Estimated proceeds from the sale of the Bonds		Php5,000,000,000
Less: Estimated upfront expenses		•
Documentary stamp tax	Php25,000,000	
Underwriting fees	15,000,000	
Other professional fees	2,500,000	42,500,000
Estimated net proceeds to PLDT for a Php5.0 billion		Php4,957,500,000
Total net proceeds (inclusive of the Php5.0 billion over-subscription op	otion)	Php14,853,584,375

The above expenses exclude gross receipts tax and value added tax, which are for PLDT's account.

Aside from the abovementioned fees, PLDT expects the following annual expenses related to the Bonds:

Professional fees	Php300,000
Annual listing maintenance fees	Php150,000 per tranche
Registry maintenance fees	Php250,000 per tranche
Paying agency fees	Php400,000 per tranche
Trustee annual retainer fees	Php250,000

The net proceeds from the Offer, inclusive of the over-subscription option, is estimated to be Php14,853,584,375 after deducting expenses related to the Offer.

The balance of proceeds from this Offer after deduction of expenses will be used by PLDT (in chronological order) to finance capital expenditure and/or refinance existing obligations the proceeds of which were utilized for service improvements and expansion.

1. Capital Expenditures

PLDT planned capital expenditures ("CAPEX") for 2014 total to about Php11.8 billion comprising the following: (1) Php6.7 billion for PLDT's investment in network facilities to continuously expand nationwide transport footprint, technology modernization and enhance capability of multimedia infrastructure; (2) Php1.4 billion on information technology to complete the implementation of PLDT's service delivery architecture that will provide new capabilities and operational efficiencies for order management and service assurance; (3) Php1.9 billion for customer premise equipment and installation materials; and (4) Php1.8 billion for other general capital expenditures, such as building renovations and improvements, vehicles, computers and periphers and other office equipment.

The schedule of capital expendture for 2014 is as follows:

Capital Expenditure	1 <sup>st</sup> Qtr 2014	2 <sup>nd</sup> Qtr 2014	3rd Qtr 2014	4 <sup>th</sup> Qtr 2014	TOTAL
(in millions)					
Network Core and Operations	1,175	1,710	2,346	1,561	6,792
Computerization Projects	286	429	429	286	1,430
CPE and Installation Materials	447	466	466	484	1,863
Other General Capital Expenditure	264	351	615	527	1,757
Total Capital Expenditure	2,172	2,956	3,856	2,858	11,842

The above capital expenditure are based on Company projections for 2014 and may still be subject to change depending on business strategy, advancements in technology or demands of customers.

2. Payment of outstanding debt obligations

The scheduled principal payments on our long-term debt for 2014 is as follows:

Loans (in millions)	Interest Rate	1 <sup>st</sup> Qtr 2014	2 <sup>nd</sup> Qtr 2014	3rd Qtr 2014	4th Qtr 2014	TOTAL
Dollar Term Loans						
Citibank \$25M	US\$LIBOR + 1.90%	\$1	\$1	\$1	\$1	\$6
US\$150M Term Loan	US\$LIBOR + 1.46%	17		17		33
US\$300MTerm Loan	US\$LIBOR + 1.35%	33		33		66
Total Dollar Loans		\$51	\$1	\$51	\$1	\$105
Peso Equivalent <sup>(1)</sup>		Php2,257	Php64	Php2,257	Php64	Php4,642
Peso Corporate Notes						
HSBC P6.2B Tranche A	5.5000%				Php38	Php38
HSBC P6.2B Tranche B	5.9058%				24	24
MBTC P1.188B	5.3938%			Php12		12
MBTC P1.5B	5.3938%			3		3
MBTC P2.055B Tranche A	5.6038%			17		17
MBTC P2.055B Tranche B	5.6423%			3		3
MBTC P8.8B Tranche A	5.6038%			29		29
MBTC P8.8 B Tranche B	5.6423%			39		39
Sub-total				Php103	Php62	Php165
Peso Term Loans						
BPI P1B Loan	PDSTF + 0.3%	Php59	Php59	Php59	Php59	Php236
BPI 2B Loan	PDSTF + 0.3%	118	118	118	118	472

Loans (in millions)	Interest Rate	1 <sup>st</sup> Qtr 2014	2 <sup>nd</sup> Qtr 2014	3rd Qtr 2014	4th Qtr 2014	TOTAL
BPI P2B Loan	Higher of PDSTF + 0.8% and BSP O/N – 0.35%				10	10
LBP P2B Loan	5.5808%		20			20
LBP P3B Loan	5.2854%			30		30
UBP P1B Loan	5.5556%	10				10
Sub-total		Php187	Php197	Php207	Php187	Php778
Total Peso Loans		Php187	Php197	Php310	Php249	Php943
Total Principal Repayments		Php2,444	Php261	Php2,567	Php313	Php5,585

<sup>(1)</sup> The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.848 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 5, 2013.

In the event of any substantial deviation/adjustment in the planned use of proceeds, the Company shall inform the Securities and Exchange Commission and the stockholders within a reasonable period of time prior to its implementation.

In addition to the net proceeds of this Offering, the Company also intends to utilize a combination of internallygenerated funds and bank financing considering that the projected total capital expenditure for 2014 and the total maturing obligations to be refinanced is greater than the net proceeds of the Offering. In this regard, it is emphasized no part or portion of the proceeds will be used to reimburse any officer, director, employee or shareholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

# **DETERMINATION OF OFFER PRICE**

The Bonds shall be issued at par, or 100% of the principal amount or face value.

# **PLAN OF DISTRIBUTION**

## THE OFFER

On December 6, 2013, PLDT filed a registration statement with the SEC, in connection with the offer and sale to the public of debt securities with an aggregate principal amount of Ten Billion Pesos (Php10,000,000,000,000,00), with an over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00). The SEC is expected to issue an order rendering the registration statement effective, and a corresponding permit to offer securities for sale covering the Offer.

However, there can be no assurance in respect of: (i) whether PLDT would issue such debt securities at all; (ii) the size or timing of any individual issuance or the total issuance of such debt securities; or (iii) the specific terms and conditions of such issuance. Any decision by PLDT to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within PLDT's control, including but not limited to: prevailing interest rates, the financing requirements of PLDT's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

### SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within one year following the issuance of the Bonds, PLDT may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the debt securities covered by such registration statement, in subsequent tranches under paragraph 2 of Rule 8.1 of the Securities Regulation Code's Implementing Rules and Regulations. Such a shelf registration provides PLDT with the ability to conduct such an offering within a comparatively short period of time. PLDT believes that such shelf registration provides the Company with the increased ability to take advantage of opportunities in a volatile debt capital market, as these occur. Any subsequent offering under such rule requires the submission by PLDT of the relevant updates and amendments to the registration statement and the issuance of the corresponding permit to sell by the SEC. As a listed company, PLDT regularly disseminates such updates and information in its disclosures to the SEC and PSE.

However, there can be no assurance in respect of: (i) whether PLDT would issue such debt securities at all; (ii) the size or timing of any individual issuance or the total issuance of such debt securities; or (iii) the specific terms and conditions of such issuance. Any decision by PLDT to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within PLDT's control, including but not limited to: prevailing interest rates, the financing requirements of PLDT's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

### UNDERWRITING OBLIGATIONS OF THE UNDERWRITERS

First Metro Investment Corporation ("First Metro"), BDO Capital & Investment Corporation ("BDO Capital"), BPI Capital Corporation ("BPI Capital"), and The Hongkong and Shanghai Banking Corporation Limited ("HSBC") (the "Joint Issue Managers" and "Joint Lead Underwriters"), China Banking Corporation, Development Bank of the Philippines, RCBC Capital Corporation and SB Capital Investment Corporation (the "Co-Lead Underwriters"), and Land Bank of the Philippines (the "Participating Underwriter"), pursuant to the Underwriting and Issue Management Agreement with PLDT executed on January 22, 2014 (the "Underwriting and Issue Management Agreement"), have agreed to act as the Underwriters for the Offer and as such, to distribute and sell the Bonds at the Issue Price, and have also committed to underwrite an aggregate principal amount of Ten Billion Pesos (Php10,000,000,000,000.00) on a firm basis, with an over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00), subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

The Underwriters have committed to underwrite the entire Offer amount allocated to each respective Underwriter as follows (in Php millions):

	Seven-Year Bonds (5.2250% p.a.)	Ten-Year Bonds (5.2813% p.a.)	Total
Joint Lead Underwriter			
BDO Capital	1,225.00	333.95	1,558.95
BPI Capital	1,225.00	333.95	1,558.95
First Metro	1,225.00	333.95	1,558.95
HSBC	1,225.00	333.95	1,558.95
Co-Lead Underwriter			
China Banking Corporation	300.00	139.20	439.20
Development Bank of the Philippines	550.00	300.00	850.00
RCBC Capital Corporation	730.00	270.00	1,000.00
SB Capital Investment Corporation	670.00	330.00	1,000.00
Participating Underwriter			
Land Bank of the Philippines	250.00	225.00	475.00
Total	7,400.00	2,600.00	10,000.00

First Metro is the sole Issue Coordinator for this transaction.

The Joint Lead Underwriters will receive a fee of 30 basis points (0.30%) on the underwritten principal amount of the Bonds issued. Such fee shall be inclusive of underwriting and participation commissions. There is no arrangement for the Underwriters to return to PLDT any unsold Bonds. The Underwriting and Issue Management Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Bonds being made to PLDT. There is no arrangement as well giving the Underwriters the right to designate or nominate member(s) to the Board of Directors of PLDT.

The Underwriters are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of its business for PLDT or its subsidiaries.

BDO Capital is the wholly-owned investment-banking subsidiary of BDO Unibank, Inc. BDO Capital is a full-service investment house primarily involved in securities underwriting, Ioan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

BPI Capital is the wholly-owned investment bank subsidiary of the Bank of the Philippine Islands. BPI Capital is a full-service investment house focused on corporate finance and the securities distribution business and offers, among others, equity and debt underwriting, project finance, financial and investment advisory, loan syndication, private equity, government and fixed income securities trading. It began operations as an investment house in December 1994.

First Metro, incorporated in the Philippines in 1972, is the investment banking arm of the Metrobank Group, one of the largest financial conglomerates in the Philippines. First Metro provides investment banking services through its four strategic business units: Investment Banking, Treasury, Investment Advisory and Strategic Finance. First Metro also has a quasi-bank license and is a GSED licensed by the Bureau of the Treasury.

HSBC Philippines is a branch of The Hongkong and Shanghai Banking Corporation Limited, a global corporation headquartered in London, United Kingdom, providing a comprehensive range of financial services to customers through Personal Financial Services (including consumer finance), Commercial Banking, Global Banking and Markets, and Private Banking. HSBC has been doing business in the Philippines for over 135 years, and currently employs over 8,000 people in the country. HSBC has a universal banking license and carries out its investment banking activities through its Global Capital Markets department.

The Underwriters do not have any relation to PLDT or any of its subsidiaries in terms of ownership by their respective major stockholder/s and have no right to designate or nominate a member(s) to the Board of Directors of PLDT, except for HSBC which owns 955 shares of PLDT common stock for its own account and 19,750,049 shares of PLDT common stock in trust for its clients, or a total of 19,751,004 shares of PLDT common stock, 2,885,218

shares of which are beneficially owned by Filipino nationals and 16,865,786 shares of which are beneficially owned by foreign nationals.

## SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Underwriters who shall sell and distribute the Bonds to third party buyers/ investors. The Underwriters may appoint other underwriters and/or selling agents to distribute and sell the Bonds. Nothing herein shall limit the rights of the Underwriters from purchasing the Bonds for their own respective accounts.

The obligations of each of the Underwriters shall be several, and not solidary, and nothing in the Underwriting and Issue Management Agreement shall be deemed to create a partnership or a joint venture between and among any of the Underwriters. Unless otherwise expressly provided in the Underwriting and Issue Management Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Underwriters of their obligations under the same Underwriting and Issue Management Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

### DESIGNATED SHARES AND ALLOCATIONS

The Underwriters may take on any portion of the Issue, as determined by PLDT, but no obligation to do so over the amount set out.

### TERM OF APPOINTMENT

The engagement of the Underwriters, as well as the Joint Issue Managers shall subsist so long as the SEC permit remains valid, unless otherwise terminated by PLDT, the Joint Issue Managers or the Underwriters.

## MANNER OF DISTRIBUTION

The Underwriters shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Bonds shall be solicited, with the primary sale of the Bonds to be effected only through the Underwriters.

### **OFFER PERIOD**

The Offer Period shall commence on January 24, 2014 and end on January 30, 2014.

### APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Underwriters a properly completed Application to Purchase, together with two (2) signature cards, and the full payment of the purchase price of the Bonds in the manner provided therein. Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof. Individual applicants must also submit, in addition to the foregoing, a clear signature-bearing and photo-bearing copy of any one of the following government issued identification cards: tax identification number (TIN), passport/driver's license/postal ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance thereof by the Issuer as being sufficient in form and substance:

- (a) a current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the applicant confirming the exemption or preferential rate;
- (b) a duly notarized declaration, in the prescribed form, warranting the applicant's tax exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption or treaty privileges and agreeing to

indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and

(c) if applicable, such other documentary requirements as may be reasonably required under by the Issuer or Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Completed Applications to Purchase and corresponding payments must reach the Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and acceptance by PLDT. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

## MINIMUM PURCHASE

A minimum purchase of Fifty Thousand Pesos (Php50,000.00) shall be considered for acceptance. Purchases in excess of the minimum shall be in integral multiples of Ten Thousand Pesos (Php10,000.00).

### REFUNDS

If any Application to Purchase is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest to the applicant through the respective Underwriter.

### PURCHASE AND CANCELLATION

PLDT may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders and the Bondholders shall not be obliged to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

#### SECONDARY MARKET

PLDT intends to list the Bonds in the PDEx. PLDT may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

### **REGISTER OF BONDHOLDERS**

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the designated Registrar for the Bonds. PLDT will cause the Register of Bondholders to be kept by the Registrar in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bondholders.

### EXPENSES

All out-of-pocket expenses, including but not limited to, registration with the SEC, credit rating, printing, publicity, communication and signing expenses incurred by the Joint Issue Managers and the Underwriters in the negotiation and execution of the transaction will be for PLDT's account irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account.

# **DESCRIPTION OF THE BONDS**

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and shareholders of PLDT, the information contained in this Prospectus, the Trust Indenture, Registry and Paying Agency Agreement, and other agreements relevant to the Offer. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the issued Bonds.

The issue of up to Ten Billion Pesos (Php10,000,000,000.00) aggregate principal amount of Bonds, with an oversubscription option of up to Five Billion Pesos (Php5,000,000,000.00) was authorized by a resolution dated December 3, 2013 of the Board of Directors of PLDT. The Bonds are comprised of Php7,400,000,000.00 7-Year fixed rate bonds and of Php2,600,000,000.00 10-Year fixed rate bonds (the "Bonds") which was approved by the Board in the same meeting. The Bonds shall be constituted by a trust indenture (the "Trust Indenture") executed on January 22, 2014 between PLDT and Metropolitan Bank & Trust Company (the "Trustee", which expression shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions.

The Bonds are also subject to the terms and conditions of a registry and paying agency agreement executed on January 22, 2014 (the "Registry and Paying Agency Agreement") between PLDT and the Philippine Depository & Trust Corp., or PDTC, as Registrar and Paying Agent. PDTC has no interest in or relation to PLDT which may conflict with its roles as Registrar and as Paying Agent for the Offer.

The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Indenture and the Registry and Paying Agency Agreement.

The 7-Year Bonds and 10-Year Bonds will mature on February 6, 2021 and February 6, 2024, respectively, unless earlier redeemed by PLDT pursuant to the terms thereof and subject to the Early Redemption Option provision as detailed below.

Copies of the Trust Indenture and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee and the Registrar. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

# 1. FORM, DENOMINATION AND TITLE

## (a) Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (Php50,000), each as a minimum, and in integral multiples of Ten Thousand Pesos (Php10,000) thereafter, and traded in denominations of Ten Thousand Pesos (Php10,000) in the secondary market.

(b) Title

Legal title to the Bonds will be shown in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer (the "Registry Confirmation") will be issued by the Registrar to all Bondholders no later than seven (7) Banking Days following the Issue Date. The Bondholder has twenty (20) days from the date indicated in the Registry Confirmation to request the Registrar for amendment, correction or completion of the relevant information in the Register of Bondholders. The Bondholder shall, within such period, request the Registrar, through the Underwriter from whom the Bonds were purchased, to amend entries in the Registry by issuing an Affidavit of Correction duly endorsed by such Bondholder's Underwriter. Upon any assignment, title to the Bonds will pass by recording of the transfer from the transferor to the transfere in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to,

documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) Bond Rating

The Bonds have been rated AAA by CRISP on January 6, 2014. In coming up with the rating, CRISP considered PLDT's dominant market leadership, strong historical financial performance and excellent management and governance.

CRISP cites the following key considerations: (i) PLDT's well-timed implementation of its network transformation program to maintain market leadership and further improve network efficiency, thus, allowing dominance in terms of both subscriber base and revenues; (ii) a strong recurring cashflow and a stable level of liquidity over the last five years despite competitive pressures and a changing revenue mix; and (iii) PLDT's strategy to continue building on its leadership in the industry and capitalize on its strength as a provider of telecommunications services to maintain competitive position and sustain strong financial performance. The rating was based on available information at the time it was given and is subject to reviews annually, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. The rating may be changed at any time should CRISP determine that circumstances warrant a change.

## 2. TRANSFER OF BONDS

#### (a) Register of Bondholders

PLDT will cause the Register of Bondholders to be kept in electronic form by the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the Bangko Sentral ng Pilipinas ("BSP"), the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of PLDT) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfers of the Bonds may be made during the period commencing on a Record Date as defined in Condition 4(a) ("Interest Payment Date").

### (b) Transfers; Tax Status

Bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor vis-a-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with non-tax exempt entities shall be treated as non-tax exempt entities for the interest period within which such transfer occurred. Transfers taking place in the Register of Bondholders after the Bonds are listed on PDEx shall be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified below under "Payment of Additional Amounts; Taxation", within three (3) days from the settlement date for such transfer before such tax-exempt status shall be accepted by PLDT.

(c) Registrar

For transfers and record updates, notices and communication with the Registrar may be made through the following:

Philippine Depository & Trust Corp. 37th Floor Enterprise Centre Tower I Ayala Avenue, Makati City, Metro Manila

Telephone no.:	(632) 884-4439
Fax no.:	(632) 757-6025
E-mail:	corazon.ordonez@pds.com.ph
Attention:	Ma. Corazon Ordonez
	Executive Director
Telephone no.:	(632) 884-4425
Fax no.:	(632) 757-6025
E-mail:	baby.delacruz@pds.com.ph
Attention:	Josephine Dela Cruz
	Associate Director

(d) Secondary Trading of the Bonds

PLDT intends to list the Bonds in PDEx for secondary market trading or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volumes occurs. Secondary market trading and settlement in PDEx shall follow the applicable PDEx rules, conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC.

### 3. RANKING

The Bonds constitute direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of PLDT and will rank pari passu and rateably without any preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of PLDT, other than obligations preferred by law.

### 4. INTEREST

- (a) Interest Payment Dates
  - i. <u>7-Year Bonds</u>

The 7-Year Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 5.2250% p.a., payable quarterly in arrears, commencing on May 6, 2014 as the first Interest Payment Date, and on August 6, November 6, February 6 and May 6 of each year following the first Interest Payment Date, or the subsequent Banking Day without adjustment to the amount of interest paid, if such Interest Payment Date is not a Banking Day.

For purposes of clarity, the last Interest Payment Date on the 7-Year Bonds shall fall on the Maturity Date or seven (7) years from the Issue Date.

ii. <u>10-Year Bonds</u>

The 10-Year Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of 5.2813% p.a., payable quarterly in arrears, commencing on May 6, 2014 as the first Interest Payment Date, and on August 6, November 6, February 6 and May 6 of each year following the first Interest Payment Date, or the subsequent Banking Day without adjustment to the amount of interest paid, if such Interest Payment Date is not a Banking Day.

For purposes of clarity, the last Interest Payment Date on the 10-Year Bonds shall fall on the Maturity Date or ten (10) years from the Issue Date.

The cut-off date in determining the existing Bondholders entitled to receive interest or the principal amount due shall be the day two (2) Banking Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

### (b) Interest Accrual

Each Bond will cease to bear interest from and including the Maturity Date, as defined in Condition 5(a) ("Final Redemption"), unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest will apply.

### (c) Determination of Rate of Interest

The interest shall be calculated on a 30/360-day basis, consisting of 12 months of 30 days each; except, however, in the case of an incomplete month, due to reasons such as, but not limited to trades in the secondary market or early redemption and purchase, the number of days elapsed on the basis of a month of 30 days.

# 5. REDEMPTION AND PURCHASE

## (a) Final Redemption

Unless previously purchased and cancelled, the Bonds will be redeemed at par or one hundred percent (100%) of face value on their respective Maturity Dates. However, payment of all amounts due on such date may be made by PLDT through the Paying Agent, without adjustment, on the succeeding Banking Day if the Maturity Date is not a Banking Day.

## (b) Early Redemption Option

Prior to the relevant Maturity Date, PLDT shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the following dates or the immediately succeeding Banking Day if such date is not a Banking Day: (i) For the Seven-Year Bonds – on the fifth (5th) year and one quarter and on the sixth (6th) year from the Issue Date; and (ii) For the Ten-Year Bonds – on the seventh (7th) year, on the eighth (8th) year and on the ninth (9th) year from Issue Date (collectively, the relevant "Early Redemption Option Dates"). The amount payable to the Bondholders in respect of any such redemption shall be calculated as the sum of (i) the relevant Early Redemption Option Price applied to the principal amount of the then outstanding Bonds being redeemed and (ii) all accrued interest on the Bonds as of the relevant Early Redemption Option Date.

	Early Redemption Option Dates	Early Redemption Option Price
Seven-Year Bonds	Fifth (5 <sup>th</sup> ) Year and One (1) quarter from the Issue Date	101.0%
	Sixth (6 <sup>th</sup> ) Year from the Issue Date	100.5%
Ten-Year	Seventh (7 <sup>th</sup> ) Year from the Issue Date	102.0%
Bonds	Eighth (8 <sup>th</sup> ) Year from the Issue Date	101.0%
	Ninth (9 <sup>th</sup> ) Year from the Issue Date	100.5%

The Company shall give not less than thirty (30) nor more than sixty (60) days' prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Company to effect such early redemption of the Bonds on the Early Redemption Option Date stated in such notice.

### (c) Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of

reasonable measures available to PLDT, PLDT may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest.

(d) Change in Law or Circumstance

When any provision of the Trust Indenture or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for PLDT to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents, such event shall be considered as changes in law or circumstances ("Change of Law") as it refers to the obligations of PLDT and to the rights and interests of the Bondholders under the Trust Indenture and the Bonds.

In the event that PLDT should invoke this Condition 5(d), PLDT shall provide the Trustee an opinion of legal counsel confirming the occurrence of the relevant event and the consequences thereof as consistent herewith, such legal counsel being from an internationally recognized law firm reasonably acceptable to the Trustee. Thereupon, the Trustee shall confirm that PLDT may redeem the Bonds in whole, but not in part, on any Banking Day (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest.

# (e) Purchase and Cancellation

PLDT may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders and the Bondholders shall not be obliged to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.

# 6. PAYMENTS

The principal of, interest on and all other amounts payable on the Bonds shall be paid to the Bondholders as of the relevant Record Date as follows: not later than 12:00 noon of each relevant Payment Date, the Paying Agent shall pay on behalf of PLDT the amounts due in respect of the Bonds by crediting the proper amounts via Real Time Gross Settlement (RTGS), net of applicable final taxes and fees, to the bank deposit account designated by each of the Bondholders for the purpose. The principal of, and interest on, the Bonds shall be payable in Philippine pesos. PLDT will ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of the Bonds and PLDT may not terminate the appointment of the Paying Agent, except as provided in the Registry and Paying Agency Agreement. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

# 7. PAYMENT OF ADDITIONAL AMOUNTS; TAXATION

Interest income on the Bonds is currently subject to a final withholding tax at rates of between twenty percent (20%) and thirty percent (30%) depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for withholding taxes (either final or creditable) as may be imposed under the Tax Code or relevant regulations of the BIR and as otherwise provided, all payments of principal and interest shall be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of PLDT, provided, however, that notwithstanding the foregoing, PLDT shall not be liable for:

(a) The applicable final withholding tax on interest earned on the Bonds prescribed under the Tax Code. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance thereof by PLDT as being sufficient in form and substance: (i) a certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate

entitlement, undertaking to immediately notify PLDT of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold PLDT and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to PLDT that the Bondholder is not doing business in the Philippines; provided, further, that all sums payable by PLDT to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

- (b) Gross Receipts Tax under Section 121 of the Tax Code;
- (c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- (d) Value-Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by R.A. No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for PLDT's account. Any documentary stamp tax for the subsequent sale or transfer of the Bonds shall be for the Bondholder's account.

### 8. MAINTENANCE OF FINANCIAL RATIOS

For as long as any of the Bonds remain outstanding, PLDT hereby covenants that it shall maintain the following:

- (a) Interest Cover Ratio wherein the ratio of EBITDA for the preceding twelve (12) months on each Quarter Date to the Projected Interest Expense on such Quarter Date shall not be less than 1.8:1; and
- (b) Total Debt to EBITDA wherein the ratio of Total Debt as at any Quarter Date to EBITDA in respect of any Relevant Period ending on such Quarter Date in respect of the Issuer shall not exceed 3.0:1

There are no other regulatory ratios that PLDT is required to comply with.

For the purpose of computing the above ratios the following terms shall have the following meanings.

"EBITDA" means net income of PLDT after adding back:

(a) Interest Charges;

(b) depreciation, amortization and other non-cash charges (including equity in net (earnings)/loss of subsidiaries to the extent not remitted by way of dividends but excluding provision for doubtful accounts); and

(c) provision for income taxes.

"Indebtedness" means with respect to PLDT, (i) all financial obligations or other obligations of PLDT for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services, (ii) all financial obligations or other obligations of any other corporation, person or other entity, the payment or collection of which PLDT has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or otherwise, including without limitation, liability by way of agreement to purchase, to provide funds for payment, to supply funds to, or otherwise to invest in such other corporation, person or other entity for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services secured by (or for which the holder of such financial obligations has an existing right, contingent or otherwise to be secured by) any lien upon or in property (including without limitation, accounts receivable and contract rights) owned by PLDT, whether or not PLDT has assumed or become liable for the

payment of such financial obligation or obligations, (iv) capitalized lease obligations of PLDT, and (v) any other arrangement assuring a creditor against loss.

"Interest Charges" means, in respect of any period, all interest which shall accrue during such period in respect of all Indebtedness of PLDT.

"LIBO Dollar Rate" means in relation to any relevant sum and any relevant period, the rate which appears on the Reuters British Bankers Association LIBOR rate on Page LIBOR 01 of the Reuters Screen as being the rate per annum at which dollar deposits are offered for a period equal or comparable to such relevant period as of 11:00 A.M., London time, on the determination date for such period.

"Projected Interest Expense" means the aggregate Interest Charges payable for the following three hundred sixty five (365)-day period calculated as follows:

- (a) with respect to each item of Indebtedness of PLDT to which a fixed rate of interest will, by the terms of such Indebtedness, apply without variation during such period, the rate of interest applicable through such three hundred sixty five (365)-day period will be such fixed rate of interest;
- (b) with respect to each other item of Indebtedness of PLDT, the rate of interest applicable throughout such three hundred sixty five (365)-day period will be equal to the aggregate of the twelve (12)-month LIBO Dollar Rate for foreign loans and ninety one (91)-day Philippine Treasury Bill Rate for local loans and the relevant margin or margins over the LIBO Dollar Rate or ninety one (91)-day Philippine Treasury Bill Rate, as the case may be (or such other base representing the assumed cost of funds to the relevant creditor or creditors as is provided by the instrument evidencing or creating such Indebtedness) applicable to such item of Indebtedness during such three hundred sixty five (365)-day period or any part or parts thereof; and
- (c) on the assumption that repayments of such Indebtedness or any part thereof will be made in accordance with the terms of the instrument or instruments evidencing or creating such Indebtedness, for which purpose intended prepayments of such Indebtedness or any part thereof of which PLDT has, on or before the calculation date, given irrevocable notice (and furnished the Bondholders with a copy thereof) to the relevant creditor or creditors shall, except in the case of prepayments to be effected by the creation of Indebtedness in replacement of the Indebtedness to be prepaid, be deemed to be repayments as aforesaid.

"Quarter Dates" means March 31, June 30, September 30 and December 31 in any calendar year.

"Relevant Period" means a period of twelve (12) calendar months ending on each Quarter Date.

"Total Debt" means, at any time, the aggregate amount of all Indebtedness of the Issuer as defined herein.

## 9. NEGATIVE PLEDGE

For as long as any of the Bonds remain outstanding, PLDT covenants that it will not create or permit to subsist any Lien upon the whole or any part of its assets or revenues present or future to secure any Indebtedness or any guarantee of or indemnity in respect of any Indebtedness unless the Issuer has made or will make effective provision, reasonably satisfactory to the Bondholders, whereby the Lien thereby created will secure, on an equal first ranking and ratable basis, any and all the obligations of PLDT hereunder and such other Indebtedness which such Lien purports to secure; provided that this shall not apply to Permitted Liens.

"Permitted "Liens are liens (i) existing on the date hereof and previously disclosed to the Bondholders in writing; (ii) for Taxes on its property and assets if the same shall not at the time be delinquent or thereafter can be paid without penalty; (iii) imposed by law (other than the statutory preference under Article 2244(14) of the Civil Code of the Philippines) such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business and not material in amount; (iv) arising out of workmen's compensation laws, unemployment insurance, pension and other social security legislation; (v) on property or assets acquired after the date hereof, the liens on which were in existence prior to or created at the time of acquisition solely for the purpose of securing the purchase price thereof; (vi) granted to a bank solely in connection with the issuance of a letter of credit in the ordinary course of the Issuer's business and which liens cover property or assets that are the subject matter of such letter of credit and which shall be released automatically when such bank or other institution is paid or reimbursed for payments made under such letter of credit; (vii) to secure Indebtedness for the purpose of financing all or any part of the cost of construction, repair or improvement of the property of the Issuer provided that the aggregate amount of such Indebtedness secured by such liens does not exceed ten per cent (10%) of the Tangible Assets of the Issuer at any one time provided further, that (a) the principal amount of such Indebtedness secured by such lien does not exceed one hundred per cent of such cost of construction, repair or improvement and (b) such lien does not extend to or cover any other item other than such property and construction, repair or improvements on such property; (viii) reflected in the notes to the most recent audited financial statements referred to in Section 6.01 (e) and dated 31 December 2012; (ix) incidental to the conduct of its business or the ownership of its assets which were not incurred in connection with the borrowing of money or obtaining of advances or credit and which do not in the aggregate materially impair the use thereof in the operation of its business; (x) created as security for costs in favor of a plaintiff or defendant in any legal proceeding; and (xi) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any lien referred to in clauses (i) to (x) inclusive, or of any Indebtedness secured thereby provided that such extension, renewal or replacement of such lien is limited to all or any part of the same property that secured the lien extended, renewed or replaced (plus any construction, repair or improvement on such property) and shall secure no larger amount of Indebtedness than that existing at the time of such extension, renewal or replacement.

For the purpose of this negative pledge, "Indebtedness" means with respect to PLDT (i) all financial obligations or other obligations of PLDT for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services, (ii) all financial obligations or other obligations of any other corporation, person or other entity, the payment or collection of which PLDT has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or otherwise, including without limitation, liability by way of agreement to purchase, to provide funds for payment, to supply funds to, or otherwise to invest in such other corporation, person or entity, (iii) all financial obligations or other obligations of any other corporation, person or other entity for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services secured by (or for which the holder of such financial obligations has an existing right, contingent or otherwise to be secured by) any Lien upon or in property (including without limitation, accounts receivable and contract rights) owned by PLDT, whether or not PLDT has assumed or become liable for the payment of such financial obligation or obligations, (iv) capitalized lease obligations of PLDT, and (v) any other arrangement assuring a creditor against loss.

### 10. EVENTS OF DEFAULT

PLDT shall be considered in default under the Bonds and the Trust Indenture in case any of the following events (each an "Event of Default") shall occur and be continuing:

(a) Failure to Pay

The Issuer fails to pay any amount payable under any of the Finance Documents within three (3) Banking Days from its due date or otherwise in accordance with the provisions hereof provided that such nonpayment shall not constitute an Event of Default if it is solely due to technical or administrative reasons affecting the transfer of funds despite timely payment instruction having been given by the Issuer and such proof of instruction is presented to the Paying Agent; provided also that such payment is received by the Paying Agent within five (5) Banking Days of the due date.

"Finance Documents" shall mean the Bond Agreements, as may be subsequently amended as herein provided, and such term shall include all agreements related, connected, antecedent, supplemental, consequential, or amendments, to the Bond Agreements, including the schedules, annexes, exhibits and supplements to all of the foregoing, the Notes and any other document that may be executed and/or delivered in accordance with, or pursuant to, the Bond Agreements.

(b) Misrepresentation

Any representation or warranty made by the Issuer herein or otherwise in connection herewith, or any certificate, statement or opinion delivered by the Issuer hereunder or in connection herewith, shall prove to

have been materially untrue, incorrect or misleading as of the time it was made or deemed to have been made.

(c) Other Obligations

The Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Finance Documents and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of thirty (30) days from the date after written notice thereof shall have been given by the Trustee.

(d) Consents

Any material Governmental authorization which is granted or required in connection with the Finance Documents is terminated, revoked or modified in any manner unacceptable to the Majority Bondholders and the result thereof is to make the Issuer unable to discharge its obligations thereunder.

(e) Cross Default

The Issuer is in default under any bond, debenture, note or other evidence of indebtedness for money borrowed by the Issuer from any bank or financial institution or under any other instrument, contract or agreement with any bank or financial institution or under any instrument or agreement for the issuance to the public of long-term notes or bonds of the Issuer with a principal amount outstanding of at least Twenty Million Dollars (\$20,000,000.00) (or the equivalent thereof in other currencies or currency units), or under any mortgage, indenture or instrument under which may be issued or by which may be secured or evidenced by any indebtedness for money borrowed by the Issuer with a principal amount outstanding of at least Twenty Million Dollars (\$20,000,000.00) (or the equivalent thereof in other currencies or currency units), whether such indebtedness now exists or shall hereafter be created, which default (A) shall constitute a failure to pay any portion of the principal of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or (B) shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without, in case of Clause (A), such indebtedness having been discharged within a period of ten (10) days from such failure to pay, or without, in the case of Clause (B), such indebtedness having been discharged or such acceleration having been rescinded or annulled within a period of ten (10) days from the date on which such indebtedness becomes or was declared due and payable.

## (f) Insolvency and Rescheduling

The Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include: (i) the filing of a petition in any insolvency, suspension of payment, bankruptcy, reorganization, winding-up or liquidation proceeding by the Issuer, or any other proceeding analogous in purpose and effect, or the failure by the Issuer to have such petition filed by a third party discharged within sixty (60) days from filing thereof or such longer period as may be granted by the Majority Bondholders in writing; (ii) the making of an assignment by the Issuer for the benefit of its creditors; (iii) the admission in writing by the Issuer of its inability to pay its debts; (iv) the entry of any order or judgment of any competent court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization, winding-up or liquidation of the Issuer; (v) the lawful appointment of a receiver or trustee to take possession of the properties of the Issuer; or (vi) any event occurs which under the laws of any jurisdiction has a similar or analogous effect to any of those events mentioned in this clause;

(g) Judgments

Any arbitration award, final judgment, or decree for a sum of money, damages or for a fine or penalty, or a writ of garnishment in excess of Twenty Million Dollars (\$20,000,000.00) or its equivalent in any other currency is entered against the Issuer by a court of competent jurisdiction and is not paid, discharged or fully bonded within thirty (30) days after the date when payment of such judgment, decree or writ of garnishment is due under applicable laws;

### (h) Conduct of Business

Any of the concessions, permits, rights, franchises, or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as it shall materially and adversely affect the financial condition or operations of the Issuer;

## (i) Suspension

The Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily, for a period of thirty (30) consecutive days;

## (j) PLDT Franchise

The PLDT Franchise is revoked, terminated or withdrawn or is suspended and such suspension is not lifted within ninety (90) days or the Issuer assigns, or transfers the PLDT Franchise; or

## (k) Governmental Intervention

Any act, deed or judicial or administrative proceedings in the nature of an expropriation, sequestration, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of, or with respect to, the business and operations of the Issuer or its property or assets or any substantial portion thereof, shall be undertaken or instituted by any Governmental Authority, present or future, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer.

# 11. CONSEQUENCES OF DEFAULT

If an Event of Default shall have occurred, then at any time thereafter, if any such event shall then be continuing and has not been waived by the Majority Bondholders, the Trustee, upon the written direction of the Majority Bondholders shall, by written notice to the Issuer, declare the Issuer in default and the entire unpaid principal amount of the Bonds, all interest accrued and unpaid thereon and all other amounts payable hereunder, to be forthwith due and payable, whereupon the same shall become immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer.

This provision, however, is subject to the condition that the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration and its consequences, upon such terms, conditions and agreements, if any, as they may determine, including the fact that the non-payment of the obligation is contested in good faith by the Issuer; but no such rescission and annulment shall extend or shall affect any subsequent Default or shall impair any right arising therefrom. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Bonds, or of any Bond issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the Bond.

(a) Declaration by the Majority Bondholders

Subject to the terms of the Trust Indenture, if any one or more of the Events of Default shall have occurred and be continuing, the Trustee shall, upon the written direction of the Majority Bondholders, by notice in writing delivered to PLDT, or the Majority Bondholders, by notice in writing delivered to PLDT and the Trustee, may declare all amounts due, including the Principal of the Bonds, all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable, anything contrary to the Trust Indenture or in the Bonds to the contrary notwithstanding.

# (b) Notice from the Trustee

At any time after any Event of Default shall have occurred, the Trustee may:

- i. by notice in writing to PLDT, the Registrar and Paying Agent, require the Registrar and Paying Agent to:
  - (a) act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registrar and Paying Agency Agreement (with consequential amendments as necessary and

save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Indenture in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all evidence of all bonds and all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or

- (b) deliver all Bond Certificates and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any law or regulation.
- ii. by notice in writing to PLDT, require PLDT to make all subsequent payments in respect of the Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn, provision (i.a) above and Section 4.1(a) of the Trust Indenture shall cease to have effect.
- (c) Penalty Interest

Upon the occurrence and during the continuance of any Event of Default, PLDT shall pay interest on all amounts then due under and owing to the Bondholders under the Trust Indenture, including but not limited to the unpaid principal amount and any interest thereon, at a rate equal at all times to one percent (1%) per annum (the "Penalty Interest") over and above and in addition to the Interest Rate computed on the actual number of days from and including the date at which the said amount/s became due until full payment thereof on a year of 360 days.

(d) Payment in the Event Of Default

PLDT covenants that in case any Event of Default shall occur and be duly declared in accordance with the Terms and Conditions of the Bonds, then, in any such case, PLDT shall pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest, and in addition thereto, PLDT shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee.

#### (e) Application of Payments

Any money collected or delivered to the Paying Agent and any other funds held by it, subject to any other provision of the Trust Indenture, the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first*, to the payment to the Trustee, the Registrar and Paying Agent, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; provided that the Trustee or Registrar and Paying Agent has sent an invoice to PLDT regarding the incurrence of such costs, expenses, fees and charges; *second*, to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; *third*, to the payment of the whole amount then due and unpaid upon the Bonds for principal and interest, with Penalty Interest; and *fourth*, the remainder, if any shall be paid to PLDT, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee. The Paying Agent shall render a monthly account of such funds under its control.

#### (f) Remedies

All remedies conferred by the Trust Indenture on the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra-judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to the Bondholders' Ability to File Suit as defined in the paragraph "Waiver of Default by the Bondholders" below.

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

### (g) Prescription

Claims in respect of principal and interest or other sums payable hereunder will be prescribed unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

(h) Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from PLDT hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee for sixty (60) days after receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

#### (i) Waiver of Default and Other Conditions by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may on behalf of the Bondholders waive any past default and the consequences of such declaration, upon such terms, conditions and agreement, if any, as they may determine; provided that no Event of Default arising from the following circumstances described in the paragraph "Events of Default" above: Section 10(a) (Failure to Pay), Section 10(e) (Cross Default) and Section 10(e) (Insolvency and Rescheduling), and its consequences, may be waived or revoked; provided further that, no such waiver or revocation shall extend to or shall affect any subsequent default or shall impair any right arising therefrom.

In case of any such waiver or revocation, PLDT, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver or revocation shall extend to any subsequent or other default or impair any right arising therefrom. Any such waiver or revocation by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

The Trustee shall, within five (5) Banking Days after receipt of the written waiver from the Majority Bondholders of any Event of Default or revocation of any default previously declared, give to the Bondholders written notice of such waiver or revocation known to it via publication in a newspaper of general circulation in Metro Manila for two (2) consecutive days as soon as practicable, indicating in the published notice that an Event of Default has occurred and has been waived or a declaration of default has been revoked by the Majority Bondholders.

# 12. NOTICE OF DEFAULT

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of a Failure to Pay default under Section 10(a) above and as provided in the Trust Indenture, the Trustee shall immediately notify the Bondholders upon the occurrence of such Failure to Pay default. The existence of a written notice required to be given to the Bondholders hereunder shall be via publication in a newspaper of general circulation in Metro Manila for two (2) consecutive days as soon as practicable, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

#### 13. TRUSTEE, NOTICES

(a) To the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Indenture and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee

Attention :	Atty. Jasmin S. Bilasano
	Senior Manager
Address :	17/F GT Tower International, Ayala Avenue cor. H.V. dela Costa St., Makati City
Facsimile:	(632) 858-8010
Telephone:	(632) 857-5614 or (632) 857-5643
E-mail :	jaz.bilasano@metrobank.com.ph

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

### (b) To the Bondholders

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders when required to be made through registered mail, surface mail, electronic mail, in case the Bondholder has provided his email address in the Application to Purchase the Bonds or in writing to the Trustee with instruction to send notices by electronic mail, or personal delivery. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders; or (iii) disclosure through the Online Disclosure System of the PDEx. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received: (i) ten (10) days from posting if transmitted by registered mail; (ii) of date of publication; (iv) on date of delivery; for personal delivery; (v) on date of transmission from the electronic mail server of the Trustee; and (vi) on the date that the disclosure is uploaded on the website of PDEx, respectively.

A notice to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by PLDT to the Securities and Exchange Commission or the PDEx on a matter relating to the Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication.

### (c) Binding and Conclusive Nature

Except as provided in the Trust Indenture, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture, shall (in the absence of wilful default, bad faith or manifest error) be binding on PLDT and all Bondholders, and (in the absence as referred above), no liability to PLDT, the Registrar and Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture.

# 14. DUTIES AND RESPONSIBILITIES OF THE TRUSTEE

### (a) Duties and Responsibilities

- i. The Trustee is hereby appointed as trustee for and in behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as expressly provided herein.
- ii. The Trustee shall, in accordance with the Terms and Conditions, monitor the compliance or noncompliance by PLDT with all its representations and warranties, and PLDT's observance of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture.
- iii. The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture and its Terms and Conditions.
- iv. The Trustee, in the performance of its duties, shall exercise such rights and powers vested in it by the Trust Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

## (b) Liability of the Trustee

No provision of the Trust Indenture shall be construed to relieve the Trustee from liability for its own gross negligent action, its own gross negligent failure to act or its willful misconduct, provided that:

- prior to the occurrence of an Event of Default or after the curing or the waiver of all Events of Default which may have occurred, in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon, as to the truth of the statements and the correctness of the opinion expressed in, any certificate or opinion furnished to the Trustee conforming to the requirements of the Trust Indenture;
- ii. the Trustee shall not be liable for any error of judgment made in good faith by its responsible officer or officers, unless it shall be proven that the Trustee was grossly negligent in ascertaining the pertinent facts; and
- iii. the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Majority Bondholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Trust Indenture.

None of the provisions contained in the Trust Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers if, in the determination of the Trustee, there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of the Trust Indenture.

### (c) Ability to Consult Counsel

The Trustee may consult with reputable counsel in connection with the duties to be performed by the Trustee under the Trust Indenture and any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or omitted to be taken by the Trustee hereunder in good faith and in accordance with such opinion; provided that, prior to taking or not taking such action for which opinion of counsel is sought, the Trustee shall inform PLDT of the relevant opinion of counsel; provided further that, the Trustee shall not be bound by the foregoing condition to inform PLDT of counsel's opinion if the opinion of counsel which is being sought by the Trustee pertains to, or involves actions to be undertaken due to, an Event of Default or issues pertaining thereto.

Notwithstanding any provision of the Trust Indenture authorizing the Trustee conclusively to rely upon any certificate or opinion, the Trustee may, before taking or refraining from taking any action in reliance thereon, require further evidence or make any further investigation as to the facts or matters stated therein which it may in good faith deem reasonable in the circumstances; and the Trustee shall require such further evidence or make such further investigation as may reasonably be requested in writing by the Majority Bondholders.

#### (d) The Trustee as Owner of the Bonds

The Trustee, in its individual or any other capacity, may become a holder of the Bonds with the same rights it would have if it were not the Trustee and the Trustee shall otherwise deal with PLDT in the same manner and to the same extent as though it were not the Trustee hereunder; provided, that such ownership shall not be considered a conflict of interest requiring resignation or change of the Trustee under Section 14(e) below.

#### (e) Resignation and Change of Trustee

The Trustee may at any time resign by giving sixty (60) days' prior written notice to PLDT and to the Bondholders of such resignation.

Upon receiving such notice of resignation of the Trustee, PLDT shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within forty-five (45) days after the resigning Trustee has served its notice of resignation on PLDT, the resigning Trustee, on behalf of the Bondholders and with prior written notice to PLDT, may appoint a successor trustee. Upon the acceptance of any appointment as trustee hereunder by a successor trustee, such successor trustee shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Trustee, and the resigning Trustee shall be discharged from its duties and obligations hereunder. The resigning Trustee shall cooperate with the successor trustee and the Bondholders in all reasonable ways to ensure an orderly turnover of its functions and the records in its custody. Subject to the provisions of Section 14(f) below, such a successor trustee should possess all the qualifications required under pertinent laws.

In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee, or of its property shall be appointed, or any public officer shall take charge or control of the Trustee, or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then PLDT may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If PLDT fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder shall petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee. Upon the acceptance of any appointment as trustee hereunder by a successor trustee, such successor trustee shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the removed Trustee, and the removed Trustee shall be discharged from its duties and obligations hereunder. The removed Trustee shall cooperate with the successor trustee and the Bondholders in all reasonable ways to ensure an orderly turnover of its functions and the records in its custody. Subject to the provisions of Section 14(f) below, such successor trustee should possess all the qualifications required under pertinent laws.

The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to PLDT, the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in the Terms and Conditions.

Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this Subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee; or (ii) the effectivity of the resignation notice sent by the Trustee (the "Resignation")

Effective Date") or the lapse of the 30-day period from the time the cause for removal occurred (the "Removal Effective Date") provided, however, that after the Resignation Effective Date and Removal Effective Date, as the case may be, until a successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor trustee promptly upon the appointment thereof by PLDT, provided further that the resigning Trustee shall be entitled the fee stipulated in Section 2.2 of the Trust Indenture during the Holdover Period.

#### (f) Successor Trustee

Any successor trustee appointed as provided under this paragraph shall execute, acknowledge and deliver to PLDT and to its predecessor Trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship hereunder with like effect as if originally named as trustee herein; but, nevertheless, on the written request of PLDT or of the successor trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusteeship herein expressed, all the rights, powers and duties of the Trustee so ceasing to act. Upon request of any such successor trustee, PLDT shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

Upon acceptance of the appointment by a successor trustee as provided in this Subsection, PLDT shall notify the Bondholders in writing of the succession of such trustee to the trusteeship herein provided. If PLDT fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of PLDT.

#### (g) Merger or Consolidation

Any corporation into which the Trustee may be merged or with which it may be consolidated or any corporation resulting from any merger or consolidation to which the Trustee shall be a party or any corporation succeeding to the business of the Trustee shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided that, such successor trustee shall be eligible under the provisions of the Trust Indenture and the Securities Regulation Code; however, where such successor trustee is not qualified under the pertinent Laws, then the provisions under Section 14(e) shall apply.

(h) Reliance

In the performance of its obligations under the Trust Indenture, the Trustee is entitled to rely on the records of the Registrar, but shall exercise such judgment and care under the circumstances then prevailing, that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

In addition, the Trustee shall not be held liable for any act or omission unless: (i) such act or omission was committed with fraud, evident bad faith, gross or willful negligence, or (ii) the Trustee failed to exercise the skill, care, prudence and/or diligence required by law and under the circumstances.

### 15. REPORTS TO BONDHOLDERS

- (a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:
  - i. The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
  - ii. Any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

- (b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.
- (c) The following pertinent documents may be inspected during regular business hours on any Banking Day at the principal office of the Trustee:
  - i. Trust Indenture
  - ii. Registry and Paying Agency Agreement
  - iii. Articles of Incorporation and By-Laws of the Company
  - iv. Registration Statement of the Company with respect to the Bonds

## 16. MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders may be called at any time and from time to time for the purpose of taking any actions authorized to be taken by or on behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25.0%) of the aggregate outstanding principal amount of Bonds may direct the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to PLDT and to each of the registered Bondholders not earlier than 15 days nor later than 45 days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by PLDT within ten (10) days from receipt of a duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time PLDT, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25.0%) of the aggregate outstanding principal amount of the Bonds, shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting within seven (7) days after receipt of such request, then PLDT or the Bondholders in the percentage above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders except for any meeting called by PLDT solely for the purpose of obtaining the consent of the Bondholders to an amendment of the Trust Indenture or the Bonds or waiver of any provisions of the Trust Indenture or the Bonds, where the failure of any Bondholder to transmit an objection to such proposal of PLDT after at least two (2) notices to such Bondholder have been sent by the Trustee, will be considered by the Trustee as an affirmative vote (and such Bondholder will be considered present for quorum by the Trustee) for the proposal of PLDT.

- (d) Procedure for Meetings
  - i. The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by PLDT or by the Bondholders, in which case PLDT or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

- ii. Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of one (1) year from the date on which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.
- (e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one (1) or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (Php10,000.00) face value of the Bonds held at the relevant time. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of PLDT and its legal counsel.

(f) Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and PLDT as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard of proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit. The minutes of each meeting and any resolution made thereat shall be taken by the Trustee.

# **17. AMENDMENTS**

- (a) PLDT and the Trustee may amend or waive any provisions of the Bond Agreements if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified of such amendment or waiver.
- (b) PLDT and the Trustee may amend the Terms and Conditions of the Bonds with notice to every Bondholder following the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds) or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:
  - i. reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
  - ii. reduce the rate of or extend the time for payment of interest on any Bond;
  - iii. reduce the principal of or extend the Maturity Date of any Bond;
  - iv. impair the right of any Bondholder to receive payment of principal of and interest on such holder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
  - v. reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;
  - vi. make any Bond payable in money other than that stated in the Bond;
  - vii. subordinate the Bonds to any other obligation of PLDT;
  - viii. release any security interest that may have been granted in favor of the Bondholders;

- ix. amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- x. make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, PLDT shall send a notice briefly describing such amendment to the Bondholders in the manner provided in Section 13(b).

### 18. EVIDENCE SUPPORTING THE ACTION OF THE BONDHOLDERS

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or request, the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith; or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

### 19. NON-RELIANCE

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of PLDT on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature with respect to its obligations under the Trust Indenture, except for its gross negligence or wilful misconduct.

### 20. GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

### 21. WAIVER OF PREFERENCE

The obligations created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any indebtedness or obligations of PLDT. Accordingly, whatever priorities or preferences that this instrument may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippine are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of PLDT for borrowed money has a priority or preference under the said provision.

# **INTERESTS OF NAMED EXPERTS**

### LEGAL MATTERS

Certain Philippine legal matters with respect to the Offer and issuance of the Bonds were passed upon for the Joint Issue Managers and Undewriters by Picazo Buyco Tan Fider & Santos. Picazo Buyco Tan Fider & Santos has no shareholdings in PLDT, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of PLDT, in accordance with the standards on independence required in the lawyers' Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines. Picazo Buyco Tan Fider & Santos may, from time to time be engaged by PLDT to advise in its transactions and perform legal services on the same basis that Picazo Buyco Tan Fider & Santos provides such services to other clients.

The named independent legal counsel has not acted and will not act as promoter, underwriter, voting trustee, officer or employee of PLDT.

#### INDEPENDENT AUDITORS

SyCip Gorres Velayo & Co., a member firm of the Ernst & Young Global Limited, the independent auditors appointed by our Audit Committee, has audited our consolidated financial statements as at December 31, 2012 and 2011 and January 1, 2011, and for the years ended December 31, 2012, 2011 and 2010 prepared and re-issued to reflect the impact of new accounting standards effective January 1, 2013 with retrospective application in accordance with Philippine Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit.

#### Independent Auditors' Fees and Services

The following table summarizes the fees paid or accrued for services rendered by our independent auditors for the years ended December 31, 2012 and 2011:

	2012	2011
	(in million	ns)
Audit Fees	Php44	Php44
All Other Fees	17	15
Total	Php61	Php59

Audit Fees. This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those years. This category also includes consultations on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Audit-Related Fees. Other than the audit fees, we did not have any other audit-related fees for the years ended December 31, 2012 and 2011.

Tax Fees. We did not have any tax fees for the years ended December 31, 2012 and 2011.

All Other Fees. This category consists primarily of fees with respect to our Sarbanes-Oxley Act 404 assessment, certain projects and out-of-pocket and incidental expenses.

The fees presented above include out-of-pocket expenses incidental to our independent auditors' work, the amount of which does not exceed 5% of the agreed engagement fees.

Our Audit Committee pre-approves all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

We have no disagreements with our independent auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope or procedure.

# **DESCRIPTION OF BUSINESS**

#### COMPANY OVERVIEW

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments – wireless, fixed line and others – we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks.

We are the leading fixed line service provider in the Philippines accounting for approximately 69% of the total reported fixed line subscribers nationwide as at September 30, 2013. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 67% of total reported cellular subscribers nationwide as at September 30, 2013. In December 2012, our Board of Directors authorized the sale of our BPO business (comprised of our customer relationship management and knowledge processing solutions business) and our BPO segment was classified as a discontinued operation.

Our common shares are listed and traded on the PSE and our ADSs, evidenced by ADRs, are listed and traded on the NYSE in the United States.

We had a market capitalization of approximately Php643,414 million and Php546,621 as at September 30, 2013 and December 31, 2012, respectively, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues of Php124,585 million and net income attributable to equity holders of PLDT of Php28,954 million for the nine months ended September 30, 2013. Total revenues and net income attributable to equity holders of PLDT amounted to Php163,484 million and Php36,148 million, respectively, for the year ended December 31, 2012.

We operate under the jurisdiction of the NTC, which jurisdiction extends, among other things, to approving major services that we offer and rates that we can charge.

As at September 30, 2013, our chief operating decision maker, or our Management Committee, viewed our business activities in three business units: Wireless, Fixed Line and Others. On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was available for immediate sale and could be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we entered into preliminary negotiations with a potential buyer and had negotiations with a potential buyer not led to a sale, we expected to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the nine months ended September 30, 2012 to present the results of operations of our BPO business as discontinued operations.

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

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is +(632) 816-8534. Our website address is *www.pldt.com*. The contents of our website

are not a part of this Prospectus.

### **BUSINESS OVERVIEW**

#### Wireless

We provide (1) cellular and (2) wireless broadband, satellite and other services through our wireless business, which contributed 91% and 9% of our wireless service revenues, respectively, in each of the first nine months of 2013 and 2012. In previous years, rapid growth in the cellular market resulted in a change in our revenue composition, with cellular service as our largest revenue source, surpassing our fixed line revenues in 2003. Cellular data services, which include all text messaging and text-related services ranging from ordinary SMS to VAS, contributed significantly to our revenue increase.

In the first nine months of 2013, the combined number of subscribers of Smart and *Sun Cellular* subscribers increased by 3,898,537, or 6%, to 72,498,270 from 68,599,733 in the same period in 2012. The growth was mainly due to a combination of organic subscriber growth and multiple SIM card ownership. The continued popularity of multiple SIM card ownership, together with unlimited voice offers, resulted in a decrease in our ARPU. Cellular penetration in the Philippines reached approximately 110% as at September 30, 2013, or approximately seven times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Approximately 96% and 91% of Smart and *Sun Cellular* subscribers, respectively, as at September 30, 2013 were prepaid service subscribers and subscriber gains in 2012 were predominantly attributable to their respective prepaid services. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market, allowing us to increase and broaden subscriber base without handset subsidies and reducing billing and administrative costs on a per-subscriber basis, as well as to control credit risk.

Our cellular subscriber growth has also been driven by text messaging. Text messaging continues to be popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Cellular data service revenues were at Php38,795 million in the first nine months of 2013 increasing from Php38,264 million in the same period in 2012.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metropolitan Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz BTS in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. We have rolled out a 3G network based on a wideband-code division multiple access technology and are currently upgrading our wireless broadband facilities. With 20,657 cellular/mobile broadband base stations as at September 30, 2013, our cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

DMPI transformed its transmission backbone network from a linear architecture to a ring topology, which allows for greater redundancy to ensure service reliability and quality. Additionally, DMPI developed an advanced 3G network that is currently operational in various provinces nationwide. We believe DMPI has developed an advanced network infrastructure that is highly efficient and can be easily scaled to accommodate increased subscriber base for its 2G and 3G business and increased network traffic from "unlimited" plans offered to subscribers of *Sun Cellular*. Smart and DMPI have defined a synergy plan whereby certain cell sites will be co-located. When the plan is fully implemented, it is expected that this will lead to generate savings in terms of capex optimization, cost efficiencies and reductions in cost duplications.

### Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country, servicing retail, corporate and small medium enterprise, or SME, clients. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. As at September 30, 2013, we had 2,073,831 fixed line subscribers, a decrease of 53,357 from the 2,127,188 fixed line subscribers as at September 30, 2012. For the nine months ended September 30, 2013 and 2012, total revenues from our fixed line business were 38% and 37%, respectively. National long distance revenues have been declining largely due to a drop in call volumes as a result of continued popularity of alternative means of communication such as texting, e-mailing and internet telephony. An increase in our data and other network service revenues in recent years has mitigated such decline to a certain extent. Recognizing the growth potential of data and other networks.

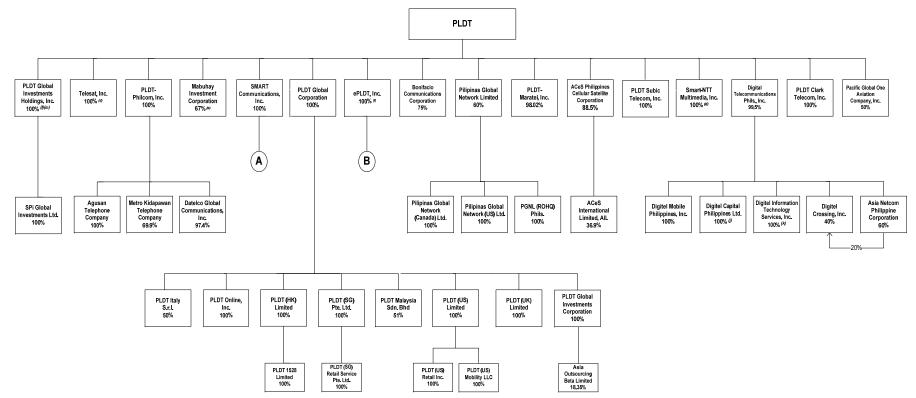
Our 11,100-kilometer long DFON is complemented by an extensive digital microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to areas not covered by fixed terrestrial transport network. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through two international gateway switching exchanges and various regional submarine cable systems in which we have interests.

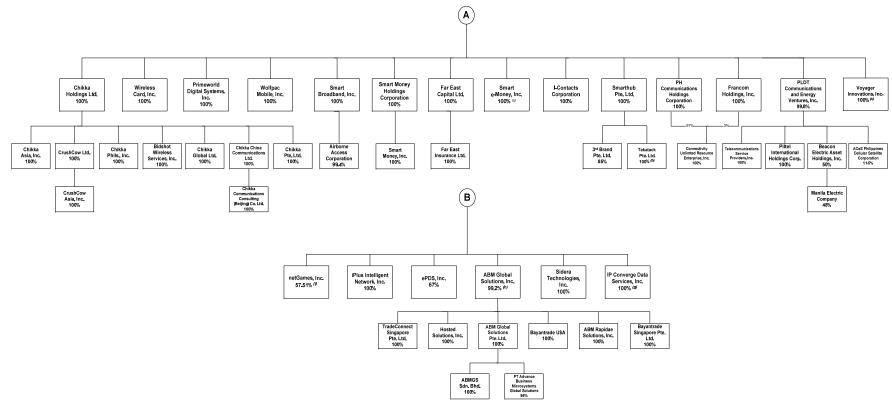
# Others

Other business consists primarily of PCEV, an investment holding company which has an interest in Meralco shares through its interest in Beacon's outstanding common stock and preferred stock, PGIC, an investment company which has an interest in the SPi Group through its interest in Beta's outstanding common and preferred stocks, and PGIH.

# ORGANIZATION

Below is the map of the relationships of the companies within the PLDT Group as at September 30, 2013:





- On July 9, 2013, by the majority vote of the Board of Directors and Stockholders, SHI filed with Philippine Securities and Exchange Commission, or Philippine SEC the amended Articles of Incorporation changing the registered business name of SHI to Smart e-Money, Inc., or SeMI.
- On September 29, 2013, by a special resolution of the Board of Directors, SGP resolved to change its registered business name to Takatack Pte. Ltd.
- On January 7, 2013, Voyager was incorporated in the Philippine SEC to provide mobile applications development and services.
- <sup>(d)</sup> Ceased commercial operations.
- Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC's Articles of Incorporation changing its name from Mabuhay Satellite Corporation to Mabuhay Investment Corporation and its primary purpose from satellite communication to holding company.
- On June 11, 2012, MySecureSign, Inc., or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company.
- On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.
- In January 2013, ePLDT acquired an additional 2% equity interest in AGS from its minority shareholders for a consideration of Php2 million, thereby increasing ePLDT's ownership in AGS from 97.1% to 99.2%.
- Ceased commercial operations in January 2013.
- Liquidated in January 2013.
- Corporate life shortened until June 2013.
- In June 3, 2013, the Philippine SEC approved the change in the name of SPi Global Holdings, Inc. to PLDT Global Investments Holdings, Inc.
- <sup>(m)</sup> On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The sale of the BPO segment was completed on April 30, 2013. See – Discontinued Operations and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Discontinued Operations.

## **DEVELOPMENT ACTIVITIES**

### Business Reorganization

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

On July 5, 2011, our Board of Directors approved the spin off of SPi and SPi CRM from ePLDT and transferred 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. See *Note 10 – Investments in Associates and Joint Ventures and Deposit* to the accompanying audited consolidated financial statements.

PCEV transferred its cellular business to Smart in August 2009 and acquired 223 million common shares, or about 20% equity interest in Meralco, in March 2010. PCEV acquired 50% equity interest in Beacon on March 30, 2010 and subsequently transferred 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment company and was reclassified from Wireless to Others business segment.

### ePLDT's Sale of Investments in Digital Paradise and Level Up!

As part of ePLDT's business realignment and continuing efforts to dispose its non-core businesses, ePLDT sold its entire 75% interest in Digital Paradise on April 1, 2011, which was followed by the sale of its 57.5% interest in Level Up! on July 11, 2011.

### ePLDT's Additional Investment in ePDS

On August 24, 2011, ePLDT acquired an additional 17% of the equity interest of ePDS from Quantium Solutions International Pte. Ltd., or Quantium (formerly G3 Worldwide ASPAC), a private limited company, resulting in the increase of ePLDT's equity interest in ePDS from 50% to 67%. See Note 10 – Investment in Associates and Joint Ventures and Deposit and Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – ePLDT's Acquisition of ePDS to the accompanying audited consolidated financial statements for further discussion.

### PCEV's Investment in Beacon

On March 1, 2010, PCEV, MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon was organized for the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Beacon's authorized capital stock of Php5,000 million consists of 3 billion common shares with a par value of Php1 per share and 2 billion preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash as further described below in the "Transfer of Meralco Shares to Beacon" section.

PCEV likewise subscribed to 1,156.5 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154.2 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

#### Transfer of Meralco Shares to Beacon

Alongside with the subscription to Beacon shares pursuant to the OA, Beacon purchased 154.2 million and 163.6 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154.2 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

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

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php23,137 million as at September 30, 2013.

#### PCEV's Additional Investment in Beacon

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

#### Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million of its investment in Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million, which took effect on June 29, 2012. In this instance, the sale of Beacon preferred shares is deemed as a sale transaction between non-related entities. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon.

#### PLDT's Acquisition of a controlling interest in Digitel from JGSHI

On March 29, 2011, the Board of Directors of PLDT and JGSHI approved the acquisition by PLDT of JGSHI's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

The consummation of the transaction was subject to the procurement by us of certain regulatory approvals, which were obtained on October 26, 2011. On the same date we completed the Digitel acquisition and began consolidating the results of operations of Digitel in our financial statements.

The primary effects of the acquisition of the Digitel Group on our operating segments are 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. See *Note 4 – Operating Segment Information, Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel and Note 14 – Goodwill and Intangible Assets to the accompanying audited consolidated financial statements for further information on the effect of the Digitel acquisition on PLDT and its businesses.* 

### Conversion of Acquired Securities and Mandatory Tender Offer in connection with the Digitel Acquisition

As a result of PLDT's acquisition of a controlling interest in Digitel, we were required under the SRC to conduct a mandatory tender offer for all the remaining outstanding shares of common stock of Digitel on substantially the same terms as the acquisition of Digitel shares from JGSHI. On December 5, 2011, we filed the tender offer report on Philippine SEC Form 19.1, setting forth the terms of the mandatory tender offer, which consisted of an offer to purchase all remaining outstanding shares of Digitel at a consideration of Php1.6033 per Digitel share, payable in our common shares based on one new common share for every Php2,500 in consideration payable, equivalent to one new common share for every 1,559.28 Digitel shares, or in cash, at the option of the 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 with a total of 2,888 million Digitel shares tendered.

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

From February 1 to March 22, 2012, PLDT purchased from the open market 72.3 million common shares of Digitel. PLDT also exercised its conversion rights on December 8, 2011, February 7, 2012 and May 8, 2012 to convert and exchange certain of the zero coupon securities acquired from JGSHI and certain other seller-parties in the Digitel acquisition into Digitel shares. As a result of the tender offer, open market acquisitions, and conversions and exchanges described above, we held 99.54% of the outstanding capital of Digitel as at December 31, 2012.

### 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 approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the divestment plan, as follows:

- CURE must sell its Red Mobile business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

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, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, 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 an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC proposed the referral to commissioners of the computation of the CRA due Smart. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

### PCEV's Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart's 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 at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE 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.

Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV's Board of Directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the

par value of PCEV's common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

	Prior	Prior to Amendments		After Amendments		
	Authorized Capital	Number of Shares	Par Value	Authorized Capital	Number of Shares	Par Value
Common Stock	Php12,060,000,000	12,060,000,000	Php1	Php12,060,006,000	574,286	Php21,000
Class I Preferred Stock	240,000,000	120,000,000	2	66,661,000	33,330,500	2
Class II Preferred Stock	500,000,000	500,000,000	1	50,000,000	50,000,000	1
Total Authorized Capital Stock	Php12,800,000,000			Php12,176,667,000		

The decrease in authorized capital and amendments to the articles of incorporation were approved by the Philippine SEC on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendment PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

As a consequence of the foregoing, the number of outstanding shares of PCEV common stock decreased to 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 123 as at September 30, 2013 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at September 30, 2013.

# Corporate Merger of MSSI and ePLDT

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

# ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSI and advances to IPCDSI for a total adjusted purchase price of Php693 million.

# ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012 and January 2013, ePLDT acquired an additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%.

# Sale of BPO Segment

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-forsale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was available for immediate sale and could be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and had the negotiations with a potential buyer not led to a sale, we expected to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations to the accompanying consolidated financial statements for further discussion.

On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, SPi Global, to AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested US\$40 million of the proceeds from the sale in Beta resulting in an approximately 19.7% interest, and continues to participate in the growth of the business as a partner of CVC. PLDT became subject to certain obligations upon completion of the sale in April 2013, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on at the relevant time or at

any time in the 12 months prior to such time in any territory in which business is carried on (excluding activities in the ordinary course of PLDT's business); and (2) an obligation, for a period of five years, to provide certain transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided to AOGL and/or its designated companies). In addition, PLDT undertook to be liable for certain damages actually suffered by AOGL arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a wholly-owned subsidiary of SPi.

# Investment in PDRs of MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the PLDT Beneficial Trust Fund, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV, Inc., or Cignal TV (formerly Mediascape, Inc.) Cignal TV is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest. Upon their issuance, they gave ePLDT a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 540 thousand net subscribers as at September 30, 2013. ePLDT's deposit for future PDRs subscription amounted to Php6 billion for Cignal TV PDRs as at December 31, 2012.

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

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

In 2013, ePLDT made various deposits aggregating to Php3.6 billion and Php1.95 billion for its investment in Satventures PDRs and Hastings PDRs of MediaQuest, respectively.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs will provide ePLDT an aggregate of 64% economic interest in Cignal TV.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

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

See Note 2 – Summary of Significant Accounting Policies, Note 13 – Business Combinations and Acquisition of Noncontrolling Interests and Note 14 – Goodwill and Intangible Assets to the accompanying consolidated financial statements for further discussion regarding these and other acquisitions.

# COMPETITIVE STRENGTHS

We believe our business is characterized by the following competitive strengths:

- Recognized Brands. PLDT, Smart, Talk 'N Text and Sun Cellular are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for 85 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. The Talk 'N Text brand, which is provided using Smart's network, has also gained significant recognition as a price-competitive brand. Our brand range was further strengthened with the acquisition of DMPI and its cellular brand, Sun Cellular. Since its launch in 2003, Sun Cellular has built considerable brand equity as a provider of "unlimited" services. Having a range of strong and recognizable brands allows us to offer to various market segments differentiated products and services that suit customers' budgets and usage preferences.
- Leading Market Shares. With almost 78 million and almost 75 million fixed line, cellular and broadband subscribers as at September 30, 2013 and December 31, 2012, respectively, we have leading market positions in each of the fixed line, cellular and broadband markets in the Philippines in terms of both subscribers and revenues.
- Diversified Revenue Sources. We derive our revenues from our three business segments, namely, wireless, fixed line and other businesses, with wireless and fixed line contributing 65% and 35%, respectively, to our total revenues in the first nine months of 2013, and 66% and 34% from our wireless and fixed line, respectively, for the year ended December 31, 2012. Revenue sources of our wireless business include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Revenues from cellular voice and text services have been declining but are somewhat mitigated by the increase in revenues from local exchange, international long distance, national long distance and data and other network services. Revenues from local exchange, international long distance, have been declining over the past years due to pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution from corporate, SME and consumer data.
- Superior Integrated Network. With the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We have completed a two-year network transformation program that has further enhanced the capabilities of our fixed line and wireless networks, allowing us to better leverage this competitive strength to maintain market leadership while achieving higher levels of network efficiency in providing voice and data services. Part of our network transformation program includes the continued upgrade of our fixed line network to an all IP-based NGN, the build out of our transmission network to 54,000 kilometers of fiber, the investment in increased international bandwidth capacity, and the expansion of our 3G and wireless broadband networks in order to enhance our data/broadband capabilities. Our network investments include the upgrade of our IT capabilities, including our Operating Support Systems, Business Support Systems and Intelligent Networks, all of which are essential in enabling us to offer more relevant services to our customers.
- Innovative Products and Services. We have successfully introduced a number of innovative and award-winning cellular products and services, including Smart Money, Smart Load and Pasa Load. Smart Load is an "over-the-air" electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. Pasa Load (the term "pasa" means "transfer") is a derivative service of Smart Load that allows load transfers to other Smart Prepaid and Talk 'N Text subscribers.
- Strong Strategic Relationships. We have important strategic relationships with First Pacific, NTT DOCOMO and NTT Communications. We believe the technological support, international experience and management expertise made available to us through these strategic relationships will enable us to enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

# STRATEGY

The key elements of our business strategy are:

- Build on our leading positions in the fixed line and wireless businesses. We plan to continue building on our position as the leading fixed line and wireless service provider in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost, and to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. In 2012, we completed a two-year network transformation program covering our fixed line, cellular and mobile broadband networks, not only to achieve operating and cost efficiencies, and lay the foundation for future technological advances, but primarily to provide superior quality of experience to our customers.
- Capitalize on our strength as an integrated provider of telecommunications services. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless, and other products and services, including content, utilizing our network and business platforms.
- Strengthen our leading position in the data and broadband market. Leveraging on the inherent
  strengths of our fixed line and wireless businesses, we are committed to further develop our fastest
  growing business- broadband, data and other network services. Consistent with our strategy of
  introducing innovative products and services using advanced technology, we continue to launch
  various products and services in the data and broadband market that deliver quality of experience
  according to different market needs, including data centers and cloud-related services.
- Maintain a strong financial position and improve shareholder returns. Following significant improvements in our financial position, we restored the payment of cash dividends to our common shareholders beginning 2005 and were able to declare dividend payouts of approximately 100% of our core earnings for seven consecutive years from 2007 to 2013. We plan to continue utilizing our free cash flows for the payment of cash dividends to common shareholders and investments in new growth areas. As part of our growth strategy, we have made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in telecommunications as well as telco-related businesses such as those in media and content.

# **BUSINESS GROUPS**

# A. Wireless

We provide cellular, wireless broadband, satellite and other services through our wireless business.

# 1. Cellular Service

#### Overview

Our cellular business, which we provide through Smart and DMPI to almost 73 million subscribers as at September 30, 2013, approximately 97% of whom are prepaid subscribers, focuses on providing wireless voice communications and wireless data communications (primarily through text messaging, but also through a variety of VAS, and mobile broadband). As a condition of our acquisition of a controlling interest in Digitel, we have agreed with the NTC that we will divest the congressional franchise, spectrum and related permits held by CURE following the migration of CURE's *Red Mobile* subscriber base to Smart. See "*Description of Business –Development Activities – Divestment of CURE*" for further discussion.

The following table summarizes key measures of our cellular business as at and for the nine months ended September 30, 2013 and 2012:

	Septe	mber 30,
	2013	2012
Systemwide cellular subscriber base	72,498,270	68,599,733
Prepaid	70,198,270	66,415,877
Smart Prepaid	23,867,643	25,377,864
Talk 'N Text	31,922,834	26,524,760
Sun Cellular	14,407,793	14,513,253
Postpaid	2,300,000	2,813,856
Smart	866,160	658,910
Sun Cellular	1,433,840	1,524,946
Growth rate of cellular subscribers		
Prepaid		
Smart Prepaid	(5%)	(9%)
Talk 'N Text	12%	30%
Sun Cellular	2%	9%
Postpaid		
Smart	27%	20%
Sun Cellular	(9%)	13%
Cellular revenues (in millions)	Php78,278	Php77,088
Voice	37,789	36,875
Data	38,795	38,264
Others <sup>(4)</sup>	1,694	1,949
Percentage of cellular revenues to total wireless service revenues	91%	91%
Percentage of cellular revenues to total service revenues	63%	64%

#### Service Plans

Smart markets nationwide cellular communications services under the brand names *Smart Prepaid, Talk 'N Text, Smart Postpaid* and *Smart Infinity. Smart Prepaid* and *Talk 'N Text* are prepaid services while *Smart Postpaid* and *Smart Infinity* are postpaid services, which are all provided through Smart's digital network. With the acquisition of a majority interest in the Digitel Group on October 26, 2011, we offer prepaid and postpaid services under the brand name *Sun Cellular*.

Smart, together with *Talk 'N Text* and *Sun Cellular*, have focused on segmenting the market by offering sectorspecific, value-driven packages for its 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 within network packages, Smart's buckets now also offer voice, text and hybrid bundles available to all networks. Smart also provides packages with unlimited voice, text, data, and combinations thereof, whose denominations depend on the duration and nature of the unlimited packages.

Postpaid subscribers have similar options depending on their monthly subscription plans. Smart offers *Smart All-in Plans*, which enable subscribers to choose from Smart's different services, such as unlimited call, text, or mobile browsing, all charged within the subscriber's monthly service fee.

Among the many popular bucket variants of Smart prepaid is the *SmarTalk Unli Call and Text 25* where subscribers can enjoy unlimited call and text to other Smart and *Talk 'N Text* subscribers, plus free 40 all network texts. In addition, for as low as Php10, Smart prepaid subscribers can get 75 all network texts which is valid for one day.

Smart also offers the Smart Unli Postpaid Plan 599 which offers unlimited call and text to any subscriber on the Smart network.

Sun Cellular offers its Call and Text Unlimited products, which allow subscribers to enjoy 24 hours of Sun-to-Sun voice calls and texts for as low as Php25 per day. Sun Cellular'sText Unlimited products offer unlimited Sun-to-Sun SMS with free voice calls for as low as Php10 per day. Sun Cellular also offers Call and Text combo which allows subscribers to send 40 Sun-to-Sun SMS and 40 SMS to other networks along with 10 minutes Sun-to-Sun voice calls for as low as Php10, valid for one day.

Sun Cellular also offers Sun Trio Loads, which comes with 200 SMS to Sun, Smart and Talk 'N Text, 10 minutes Sun-to-Sun calls, 3 minutes of calls to Sun Cellular, Smart and Talk 'N Text bundled with 30 minutes of mobile internet for as low as Php20, valid for one day. Moreover, Sun Cellular launched Sun BlackBerry All-Day unlimited services which comes with unlimited mobile internet, unlimited social networking, unlimited instant messaging, unlimited BlackBerry browsing and unlimited BlackBerry Messenger for only Php50 per day.

Sun Cellular postpaid plans offer a variety of services to cater to the emerging needs of the subscribers and provide innovative services at affordable prices. Sun Cellular offers Sundroid Rush Plans starting from Php450 per month that comes with a free Android handset and tablet where subscribers can enjoy unlimited Sun Calls and Texts, 250 free texts to other networks and Php20 hours for mobile internet. Sun Cellular also offered IDD plans which allows subscribers to make international calls and send SMS to selected countries for as low as Php2 per minute of voice call or per SMS. The IDD Plans also come with a free Android handset along with free calls and SMS, depending on the plan.

### Voice Services

Cellular voice services comprise all voice traffic and voice VAS such as voice mail and international roaming. Voice services remain a significant contributor to wireless revenues, generating a total of Php37,789 million and Php36,875 million, or 48% of cellular service revenues in each of the first nine months of 2013 and 2012, respectively. Local calls continue to dominate outbound traffic constituting 91% of all our cellular minutes. Domestic inbound and outbound calls totaled 38,616 million minutes in the first nine months of 2013, an increase of 1,343 million minutes, or 4%, as compared with 37,273 million minutes in the same period in 2012, due to increased traffic on unlimited calls. International inbound and outbound calls totaled 2,686 million minutes in the first nine months of 2013, an error and outbound calls totaled 2,686 million minutes in the same period in 2012. The ratio of inbound-to-outbound international long distance minutes was 4.6:1 in the first nine months of 2013.

# Data Services

Cellular revenues from data services include all text messaging-related services, as well as, VAS.

The Philippine cellular market is one of the most text messaging-intensive markets in the world, with more than a billion text messages sent per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications.

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php531 million, or 1%, to Php38,795 million in the first nine months of 2013 from Php38,264 million in the same period in 2012 primarily due to higher internet/SMS-based VAS, partially offset by lower text messaging revenues, MMS-based VAS and *Pasa Load/Give-a-Load* revenues. In the first nine months of 2013, Smart's and DMPI's text messaging system handled 25,531 million outbound messages on standard SMS services and 355,056 million messages generated by bucket-priced text services. Cellular data services accounted for 50% in each of our cellular service revenues in the first nine months of 2013 and 2012.

Smart and DMPI offer the following VAS:

- *Mobile internet* includes revenues from web-based services such as mobile internet browsing and video streaming, net of allocated discounts and content provider costs;
- Pasa Load/Give-a-load 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 (three Smart-to-Smart texts plus Php1 air time) from Smart which will be deducted upon their next top-up;
- SMS-based includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs; and
- *MMS-based* 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.

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

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for textbased informational and e-commerce services. There is a potential growth in mobile internet browsing as a result of the popularity of social networking and the affordability of smartphones. Our current approach is to continue maximizing our 3G network services while upgrading our network to Long-Term Evolution, or LTE 4G, in anticipation of the growth in mobile internet browsing in order to provide quality of experience to our subscribers.

### Chikka

Through Chikka, we provide an internet and GSM-based instant messaging facility for mobile users or subscribers. Services include instant text messaging from personal computer to mobile phones and vice versa, text newsletter, text-based promotions, multi-media messaging, subscription-based services, and other mobile VAS.

#### Rates

Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber activates and uses the SIM card and reloads it at least once during the month of initial activation or in the immediately succeeding month. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload.

*Smart Prepaid* and *Talk 'N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500. The Php300 and Php500 cards include 33 and 83 free text messages, respectively. The stored value of a prepaid card remains valid for a period ranging from 30 days to 120 days depending on the denomination of the card, with larger denominations having longer validity periods from the time a subscriber activates the card. We launch from time to time promotions with shorter validity periods. The introduction of electronic loading facility, *Smart Load*, made reloading of air time credits more convenient and accessible for consumers. *Smart Load's* overthe-air reloads have evolved to respond to market needs and now come in various denominations ranging from Php10 to Php1,000 with corresponding expiration periods. The introduction of *Smart Load* was followed by *Pasa Load*, a derivative service, allowing prepaid and postpaid subscribers to transfer even smaller denominations to other prepaid subscribers. Since 2005, Smart has offered fixed rate or "bucket" packages as a means of driving subscriber activations and stimulating usage. These bucket packages, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be popular with subscribers. Smart also offers unlimited voice and text packages and unlimited voice and text packages account for 32% of our cellular service revenues in 2012.

Smart Prepaid subscribers are charged Php6.50 per minute for calls to Smart Prepaid and Talk 'N Text subscribers and Php7.50 per minute terminating to other cellular or fixed line networks. Talk 'N Text calls to Talk 'N Text subscribers are charged Php5.50 per minute while calls to Smart Prepaid and other cellular fixed line subscribers are charged Php6.50 per minute.

*Sun Cellular* has continued to offer its range of existing unlimited products and further introduced special product promotions. *Sun Cellular* introduced an enhanced version of its flagship *Call and Text Unlimited* product by launching the *Sun Call and Text Unlimited Superloaded* product, offering unlimited on-network call and text feature of the *Call and Text Unlimited Service* with the aim to provide more value for money by bundling a set number of free texts to other networks. For example, the Php100 denomination is valid for five days and comes with 300 free texts to other networks. There are also variants with longer validity periods and more free inclusions: Php150 provides *Sun Call & Text Unlimited* for 7 days with 500 free texts to other networks and includes Php25 regular load, while Php450 is valid for 30 days, includes Php50 regular load and 800 free texts to other networks. Recently, *Sun Cellular* launched *Sun Power Text Unlimited 200* which gives subscribers 30 days of unlimited Sun texts, four hours of *Sun-to-Sun* calls and 1,000 texts to other networks.

Smart offers *All In, Unli Voice and Text*, and *Unli Data* postpaid plans with monthly service fees ranging from Php299 to Php3,000 for *Smart Postpaid* and from Php3,500 to Php8,000 for *Smart Infinity* plans. These plans are allocated free calls, texts and data, and different rates in excess of allocation, depending on the monthly plan. Monthly service fee plans are applicable only to local calls, text messages and data browsing, including VAS.

*Sun Cellular* offers postpaid services that enable subscribers to place local and international calls and SMS, use mobile internet and utilize a wireless landline through postpaid plans with varying monthly service fees ranging from Php250 to Php3,500. Sun *Cellular* subscribers not availing of any *Call and Text Unlimited* service are charged Php5.50 per minute for calls to other *Sun Cellular* subscribers and Php6.50 to other networks. Local NDD calls are likewise charged at Php6.50 per minute.

Smart subscribers pay an international direct dialing rate of US\$0.40 per minute. This rate applies to most destinations, including the United States, Hong Kong, Japan, Singapore, the United Kingdom and the United Arab Emirates. Smart charges US\$0.98 per minute for 27 other destinations and US\$2.18 per minute for another ten destinations. Smart subscribers also have the option of calling at more affordable rates, even for as low as Php2.50 per minute, through *HELLOw* reloadable IDD card, Smart's budget IDD service.

Sun Cellular offers an IDD rate of US\$0.30 per minute to Japan, Saudi Arabia, United Arab Emirates, Australia, United Kingdom, Italy, Germany, Spain and over 100 other countries. Subscribers can also opt to avail of any of Sun Cellular's various promos, where international calling rates can reach as low as Php1.50 per minute.

### Distribution and Discounts

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have 182 all exclusive distributors, of which 28 and 154 are regional and provincial distributors, respectively, and 85 key account dealers, 15 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products. With the introduction of Smart Load, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the "sachet" marketing concept of consumer goods, such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, Smart Load's distribution network now encompasses approximately 1.0 million retailers, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs and individual roving agents), and 20% are macro business (e.g., mall branches, supermarkets, drugstores, pawnshops and MFI outlets) established nationwide and internationally. These micro-retailers must be affiliated with one of Smart's authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart's prepaid service became more affordable and accessible to subscribers. Sun Cellular also offers over-the-air reloads through Sun's Xpress Load.

For prepaid services, we grant discounts to dealers for prepaid phone kits, modems, air time cards and over-the-air reloads sold. Smart compensates dealers with Php100 to Php800 in cash discount per unit depending on the price of the prepaid phone kit sold whereas *Sun Cellular's* cash discount of Php37 to Php450 varies based on the prepaid phone kit sold. Air time cards and over-the-air reloads are sold at an average discount of approximately 8% and 13%, respectively for Smart, and 8% and 12%, respectively for *Sun Cellular*. Air time cards cannot be returned or refunded and normally expire within 14 months after release from the Smart warehouse. The same policy is being applied by *Sun Cellular*.

# 2. Wireless Broadband, Satellite and Other Services

#### Overview

We currently provide wireless broadband, satellite and other services through SBI, DMPI and PDSI, our wireless broadband service providers; Chikka Group, our wireless content operator; and ACeS Philippines, our satellite operator.

#### SBI

Through SBI with its *SmartBroadband*, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. Smart provides its *SmartBro* service through the following technologies: 3G high-speed packet access, or HSPA, 4G HSPA+, LTE, broadband-enabled base stations and WiMax. As at September 30, 2013, SBI had 1,294,152 and 549,687 prepaid and postpaid broadband subscribers, respectively. *SmartBroadband* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available.

### DMPI

Through DMPI, with its *Sun Broadband Wireless* service, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. DMPI's *Sun Broadband Wireless* service offers internet users broadband wireless service with 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* aims to strengthen our position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available. *Sun Cellular* also offers the *SBW Gadget Bundle* available under *Plans 799* and *999*, which comes with a free tablet and pocket wifi. As at September 30, 2013, DMPI had 303,034 and 231,734 prepaid and postpaid broadband subscribers, respectively.

### PDSI

PDSI provides a suite of high-value IP-based products servicing corporate clients, such as wired and wireless leased line access with security and high availability option, managed services, VoIP and other value-added services such as server co-location and data center services.

### ACeS Philippines

ACeS Philippines currently owns approximately 36.99% of AIL. AIL provides satellite-based communications to users in the Asia-Pacific region through the ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. See Note 24 – Related Party Transactions and Note 27 – Financial Assets and Liabilities to the accompanying consolidated financial statements for further discussion regarding the ATPA.

As part of the integration process of the PLDT Group's wireless business, ACeS Philippines' operations have been integrated into Smart. This operational integration effectively gives Smart the widest service coverage in the Philippines through the combination of the coverage of ACeS Philippines with Smart's cellular service.

#### Revenues

Our revenues from wireless broadband, satellite and other services consist of wireless broadband service revenues of SBI and PDSI, revenues from ACeS Philippines' satellite information and messaging services, and service revenues generated from PLDT Global's subsidiaries.

#### Rates

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

SBI offers mobile internet access through *SmartBro Plug-It*, a wireless modem, and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity in places where there is Smart network coverage. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants, with prepaid offering 15-minute internet access for every Php5 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200, Unli Surf100* and *Unli Surf50* for *SmartBro Plug-It Prepaid* and *SmartBro Pocket Wifi* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based and volume-based charging and longer validity periods.

*SmartBro WiMAX* service is available in Metropolitan Manila and selected key cities in Visayas and Mindanao. *WiMAX* 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 Plans 799 and 999 with burst speeds of up to 512 kbps and 1 Mbps, respectively.

DMPI's *Sun Broadband Wireless* service offers internet users affordable broadband wireless service with the most advanced 3.5G HSPA technology on an all-IP network. *Sun Broadband Wireless* has plans and offerings ranging from Php250 to Php1,399 with speeds of up to 3.6 Mbps, except for Plan 1399 which has a speed of 7.2 Mbps.

ACeS mobile service subscribers are charged Php13.84 per minute for local and mobile-to-mobile calls and for national direct dial services, while residential subscribers are charged peak hour rates of Php13.00 per minute and off-peak hour rates of Php8.00 per minute for domestic calls regardless of destination. For ACeS System public calling offices, callers are charged Php4.50 and Php7.00 per minute for calls terminating to fixed line and cellular networks, respectively. Rates for international long distance calls depend on the country of termination and range from US\$0.35 per minute for frequently called countries to US\$0.85 per minute for less frequently called countries.

### B. Fixed Line

We provide local exchange, international long distance, national long distance, data and other network and miscellaneous services under our fixed line business.

We offer postpaid and prepaid fixed line services. Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy.

# 1. Local Exchange Service

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries – Philcom and its subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI, Maratel and Digitel. Together, these subsidiaries account for approximately 9% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange services as at and for the nine months ended September 30, 2013 and 2012:

	Septem	ber 30,
	2013	2012
Number of local exchange line subscribers	2,073,831	2,127,188
Number of fixed line employees	7,151	7,811
Number of local exchange line subscribers per employee	290	272
Total local exchange service revenues (in millions)	Php12,194	Php12,378
Local exchange service revenues as a percentage of total fixed line service revenues	27%	28%
Local exchange service revenues as a percentage of total service revenues	10%	10%

Revenues from our local exchange service decreased by Php184 million, or 1%, to Php12,194 million in the first nine months of 2013 from Php12,378 million in the same period in 2012, primarily due to lower weighted average billed lines, lower installation and activation charges, and a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services. The percentage contribution of local exchange revenues to our total fixed line service revenues was 27% and 28% in the first nine months of 2013 and 2012, respectively.

### Rates

Basic monthly charges for our local exchange service in the Metropolitan Manila area were Php691.75 for a singleparty residential line and Php1,410.10 for a single business line as at September 30, 2013. Monthly charges vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,100 for residential customers and Php1,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allow for a minimal installation fee of Php500. Aside from basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls to PLDT and other landlines within a local area code are free. Our prepaid fixed line customers generally do not pay a basic monthly charge but they can load a minimum amount of Php200 which will expire in a month to have unlimited incoming calls, but needs to top-up load to make outbound calls, where all local calls are charged Php2.00 per call and tolls are charged separately depending on the type of call. Recently, the Php300 load plan was introduced to the market with free 600 local outgoing minutes and unlimited incoming calls for one month. In excess of the free minutes however, prepaid fixed line customers also need to top-up load to make outbound calls, with all local calls charged at Php2.00 per call while tolls are charged separately depending on the type of call.

PLDT offers both prepaid and postpaid *PLP*, where subscribers to the services benefit from a text-capable home phone which allows subscribers to bring the telephone set anywhere within the home zone area. These services are primarily intended for subscribers in areas where PLDT has no facilities and is expected to increase our fixed line subscriber base.

Currently, for the *PLP* postpaid regular service, there are two plans being offered: (a) Plan 600 and (b) Plan 1,000, both with unlimited local outgoing calls. Another postpaid service currently offered is the *Call All* plan wherein *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers wireless broadband services bundled with voice namely: Home Bundle 1299 and Internet@Home plans offered in two plans with monthly service fees of Php990 and Php1,299.

For the *PLP* prepaid service, there are two load plans being offered: (i) Php300 load denomination with free 600 local outgoing minutes and unlimited incoming calls for one month; and (ii) Php150 load denomination with free 250 local outgoing minutes and unlimited incoming calls valid for 15 days. Both prepaid plans charges Php2 per call in excess of free local outgoing minutes for Php300 and Php150 denominations.

Pursuant to a currency exchange rate adjustment, or CERA, a mechanism authorized by the NTC, we are allowed to adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the

Philippine peso-to-U.S. dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In a letter dated July 11, 2008, the NTC had approved our request to implement a rate rationalization program for our local service rates. In the first nine months of 2013, we have not made any adjustment in our monthly local service rates.

For a detailed description of these rates, see "- International Long Distance Service - Rates" and "- National Long Distance Service - Rates."

In the first quarter of 2005, HB No. 926 was filed and remains pending in the House of Representatives of the Philippines. The proposed bill provides for the cancellation of the currency exchange rate mechanism currently in place. If this bill is passed into law or if the NTC issues guidelines to change the basis of the currency exchange rate mechanism, our ability to generate U.S. dollar linked revenues from our local exchange business could be adversely affected.

# 2. International Long Distance Service

Our international long distance service consists of switched voice and packet-based voice and data services that go through our IGFs. We also generate international long distance revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate to our local exchange network. Our packet-based voice and data services are transmitted over our existing traditional circuits, VoIP systems and the network of a consortium of dominant carriers in Asia in which PLDT is a member.

The following table shows certain information about our international long distance services as at and for the nine months ended September 30, 2013 and 2012:

	September 30,	
	2013	2012
Total call volumes (in million minutes)	1,639	1,570
Inbound call volumes (in million minutes)	1,343	1,218
Outbound call volumes (in million minutes)	296	352
Inbound-outbound call ratio	4.5:1	3.5:1
Total international long distance service revenues (in millions)	Php8,448	Php7,950
International long distance service revenues as a percentage of total fixed line service revenues	18%	18%
International long distance service revenues as a percentage of total service revenues	7%	7%

International long distance service historically has been a major source of our revenue. However, the decline in inbound termination and collection rates and intense competition have lowered our international long distance service revenues in the past years.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (i) lowering our inbound termination rates; (ii) identifying and containing unauthorized traffic termination on our network; (iii) being more selective in accepting incoming traffic from second- and third-tier international carriers; and (iv) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for customers. In addition, through PLDT Global, we aggregate inbound call traffic to the Philippines at our points of presence and, using our capacity in submarine cable systems connected to each point of presence, transmit calls to our network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering products and services such as international prepaid calling cards, virtual mobile services, SMS transit and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the nine months ended September 30, 2013 and 2012:

	Net Settle	
	2013	2012
		2012
Saudi Arabia	US\$50	US\$32
United Arab Emirates	24	19
United States	16	14
Canada	8	5
Malaysia	7	5
Hongkong	6	6
Taiwan	5	7
UK	5	3
Japan	3	9
Others	11	16
Total	US\$135	US\$116

#### Rates

The average termination rate for PLDT was approximately US\$0.087 per minute in the first nine months of 2013, and approximately US\$0.092 in the same period in 2012.

Rates for outbound international long distance calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in Philippine pesos. The Philippine peso amounts are determined at the time of billing. We charge a flat rate of US\$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international long distance service through PLDT *Budget Card*, a prepaid call card, which offers lowpriced international calling services at IDD call rates ranging from Php1.50 per minute to Php15 per minute, depending on the destination, to 98 calling destinations (including 16 Middle East destinations). PLDT *Budget Card* comes in two (2) denominations: Php100, which can be consumed within 30 days from first use, and Php200, which can be consumed within 60 days from first use.

The standard IDD rate of US\$0.40 per minute is being offered in all Digitel regular retail plans. To cater to the growing overseas foreign workers market, Digitel launched *Choice Elite* offering outbound IDD rates to top destination countries for as low as US\$0.14 per minute and product bundles for Digitel DSL and *SunTel* offering a US\$0.10 per minute calling to select country destinations. Digitel also offers prepaid international call services via DGMAX, a pure IDD card that offers low-priced IDD calling services with rates ranging from Php1.50 per minute to Php15 per minute for different destinations. DGMAX cards are sold in two denominations of Php100 and Php50 and must be consumed within 30 days and 15 days, respectively, from first use.

# 3. National Long Distance Service

Our national long distance services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers.

The following table shows certain information about our national long distance services as at and for the nine months ended September 30, 2013 and 2012:

	Septer	September 30,	
	2013	2012	
Total call volumes (in million minutes)	644	747	
Total national long distance service revenues (in millions)	Php3,481	Php3,873	
National long distance service revenue as a percentage of total fixed line service revenues	8%	9%	
National long distance service revenue as a percentage of total service revenues	3%	3%	

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing, cellular text messaging and the use of social networking sites, have negatively affected our national long distance call volumes and higher ARPU primarily as a result of ceasing certain promotions on our national long distance calling rates. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, as well as the interconnection among local telcos, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

#### Rates

Rates for national long distance calls traditionally were based on type of service, such as whether the call is operator-assisted or direct-dialed. However, in line with its move towards rate simplification, PLDT simplified these rates in recent years to a flat rate of Php5.00 per minute for calls originating from and terminating to the PLDT fixed line network, and for calls terminating to fixed line networks of other LECs. In recent years, PLDT also simplified its rates for calls terminating to cellular subscribers to a uniform rate of Php14.00 per minute.

In addition, PLDT bundles the free PLDT-to-PLDT calls in some promotions and product/service launchings in order to stimulate fixed line usage.

We continue to evaluate the rate structure of our national long distance services from per minute toll charges to flat rates per call for calls of unlimited duration. This is envisioned to make fixed line rates more competitive with VoIP rates and to revitalize interest in fixed line usage. We continue to study various pricing models in respect of the above new rate plans.

PLDT currently has interconnection arrangements with the majority of other LECs, pursuant to which the originating carrier pays: (1) a hauling charge of Php0.50 per minute for short-haul traffic or Php1.25 per minute for long-haul traffic to the carrier owning the backbone network; and (2) an access charge of Php1.00 per minute to the terminating carrier. PLDT still maintains revenue-sharing arrangements with a few other LECs, whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and the remaining 30% for the terminating entity.

# 4. Data and Other Network Services

Our data and other network service revenues include charges for broadband, leased lines and IP-based services. These services are used for broadband internet, and domestic and international private data networking communications.

The following table summarizes key measures of our data and other network services as at and for the nine months ended September 30, 2013 and 2012:

	Septen	nber 30,
	2013	2012
Subscriber base:		
Broadband	949,762	879,237
SWUP	28,339	20,838
Total data and other network service revenues (in millions)	Php20,338	Php18,553
Domestic	14,817	13,836
Broadband	9,096	8,380
Leased Lines and Others	5,721	5,456
International		
Leased Lines and Others	4,247	4,035
Data Center	1,274	682
Data and other network service revenues as a percentage of total fixed line service revenues	44%	42%
Data and other network service revenues as a percentage of total service revenues	16%	15%

Recognizing the growth potential of data and other networking services, including IP-based services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services in the first nine months of 2013 and 2012.

The continuous upgrading of our network using next-generation facilities and the completion of our domestic fiber optic backbone has enabled us to offer a growing range of broadband and value-added services. With this and other technological upgrades, our infrastructure has developed from a traditional voice facility to a nationwide data network.

Domestic data services consist of broadband data services and leased lines and other data services.

In the first nine months of 2013, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *Fibr*, our most advanced broadband internet connection, which is intended for individual internet users.

At the start of 2012, PLDT introduced new bandwidth variants of DSL offerings for businesses with speeds as fast as 15 Mbps, and hardware bundle options where large enterprise customers are able to get top-of-the-line, branded IT devices of their choice together with their DSL.

Leased lines and other data services include: (i) Diginet, a domestic private leased line service, specifically supporting Smart's fiber optic and leased line network requirements; (ii) IP-VPN, an end-to-end managed IP-based or Layer 3 data networking service that offers secure means to access corporate network resources; (iii) Metro Ethernet, a high-speed, Layer 2, wide area networking service that enables mission-critical data transfers; (iv) *Shops.Work*, a connectivity solution designed for retailers and franchisers, linking company branches to the head office; and (v) *SWUP*, a 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.

International leased lines and other data services consist mainly of: (i) i-Gate, our premium, direct internet access service, which continues to be the choice among enterprise users for dedicated internet connectivity, as bandwidth capability goes beyond 200 Mbps, where heavy users can be provided with as much as 1,000 Mbps of direct i-Gate internet bandwidth, complemented by industry-leading Service Level Agreements; (ii) Fibernet, which provides cost-effective and reliable bilateral point-to-point private data networking connectivity, through our extensive international alliances, to offshore and outsourcing, banking and finance, and semiconductor industries; and (iii) other international managed data services in partnership with other global service providers, which provide data networking services to multinational companies.

*Vitro*<sup>™</sup>data center, the country's pioneer and only purpose-built network of data centers, provides collocation or rental services, server hosting, disaster recovery, business continuity services, and a host of managed ICT solutions to meet the growing ICT outsourcing needs of enterprise customers. In 2012, two new *Vitro*<sup>™</sup> data centers were built and inaugurated at the Subic Freeport Zone and in the Cebu commercial district, to offer geographical site diversity to Metropolitan Manila and Luzon based customers, as well as to serve the emerging ICT needs within these areas.

PLDT's cloud infrastructure was completed during the last quarter of 2012, making PLDT the first local telecommunications provider to deploy and market a full-fledged, carrier-grade cloud infrastructure and strategically positions the group to assume leadership in this emerging, new space market. Through cloud, a best-in-class Infrastructure-as-a-Service, or IaaS, product offering is now commercially available, giving the market a high performance alternative for their virtual computing requirements. The PLDT cloud is hosted in *Vitro*<sup>™</sup> data centers, assuring customers of enterprise-grade security, reliability and fast access to their subscribed cloud resources.

We have embarked on a state-of-the-art network modernization program with the deployment of FTTH technology that allows for high-speed internet connections. This technology is expected to springboard the offering of multimedia services on top of basic access, such as interactive video services, and will also serve as a robust platform for cable television, allowing seamless simultaneous high definition streaming. *Fibr* provides fiber optic internet connection using FTTH technology with speeds of up to 100 Mbps. To add more value, *Fibr* now comes with video-on-demand services that feature blockbuster movies.

# 5. Miscellaneous

Miscellaneous services provide directory advertising, facilities management, rental fees and other services which are conducted through our wholly-owned subsidiary, ePLDT, and its subsidiaries, a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications and online gaming.

# COMPETITION

Including us, there are three major LECs, eight IGF providers and two major cellular operators in the country. Some new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. However, barriers to entry are quite high given the amount of investment needed to be made by new entrants in order to match the infrastructure of the existing operators.

# A. Cellular Service

There are presently only two major cellular operators, namely us and Globe following the acquisition of the Digitel Group by PLDT in October 2011. Cellular market penetration in the Philippines is in excess of 100% based on SIM ownership.

Competition in the cellular telecommunications industry has intensified starting the middle of 2010 with greater availability of unlimited offers from the teleco operators resulting in increased volumes of calls and texts but declining yields. Even after PLDT's acquisition of the Digitel Group in the last quarter of 2011, Globe continued to compete aggressively to gain revenue market share, albeit on a more regional/localized basis. Competition also increased in the postpaid space with more aggressive promotions involving greater handset subsidies. The principal bases of competition are price, including handset prices in the case of postpaid plans, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart was able to defend and stabilize its revenue market share in 2012 by matching Globe's offers and by highlighting the quality of Smart's network.

Our network leads the industry in terms of coverage with 20,657 cellular/mobile broadband base stations, and 2,903 fixed wireless broadband base stations, of which approximately 10,000 are 4G-capable broadband stations.

Today, competition remains intense but appears to have stabilized.

As a result of competitive pressures, service providers, including Smart, have introduced "bucket" plans providing unlimited voice and text services, and other promotions. While most of the "bucket" priced plans currently available in the market are being offered on promotional bases, Smart, Globe and *Sun Cellular* continue to launch other services that are designed to encourage incremental usage from existing subscribers and also to attract new subscribers.

Cellular operators also compete actively in launching innovative products and VAS. The growing range of cellular products and services include not only text messaging but also multi-media messaging, voice mail, text mail, international roaming, information-on-demand, mobile banking, e-commerce, mobile data, cellular internet access and internet messaging.

On February 14, 2006, Smart opened its 3G network in selected key cities nationwide, making video calling, video streaming, high speed internet browsing and special 3G content downloads on its 3G network available to subscribers with 3G handsets. In May 2008, DMPI started to operate its 3G network. Likewise, Globe has been rolling out its 3G network. At the end of September 30, 2013, the PLDT Group's 3G network had achieved about 71% population coverage.

In August 2012, Smart launched its LTE network with sites present in 69 municipalities in 46 cities nationwide.

Consistent with industry practice and Smart's churn management efforts, Smart "locks" the handsets it sells to its subscribers, rendering them incompatible with SIM cards issued by competitors and thereby hindering them from swapping the existing SIM for a SIM of a competing operator. However, subscribers can have their handsets "unlocked" by unauthorized parties for a nominal fee and purchase new SIM cards from competing operators. "Unlocking" does not involve significant cost to the subscribers. Switching to another cellular operator would, however, result in a change of the subscriber's cellular telephone number.

In order to avail themselves of promotions and cost efficient network-to-network calling rates, cellular subscribers in the Philippines have increasingly been subscribing to the services of multiple wireless operators. As a result, the increases in the first nine months of 2013, 2012 and 2011 in our cellular subscriber base and the penetration rate of the wireless market in the Philippines were primarily attributable to such "multiple SIM card ownership."

# B. Local Exchange Service

The concerted nationwide local exchange line build-out by various providers, as mandated by the Philippine government, significantly increased the number of fixed line subscribers in the country and resulted in wider access

to basic telephone service. The growth of the fixed line market, however, remained weak due to the surge in demand for cellular services and, in the past, the general sluggishness of the Philippine economy. Nevertheless, we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face one or two competitors. Our principal competitors in the local exchange market are Bayan and Globe-Innove, which provide local exchange service through both fixed and fixed wireless landline services.

There are currently three major fixed wireless landline services in the market that resemble a cellular phone service but provide the same tariff structure as a fixed line service such as the charging of monthly service fees. The earliest of such service was provided by Digitel, now part of PLDT, in the fourth quarter of 2005 at a fixed monthly rate of Php672. This service is provided mostly in selected areas of Southern and Northern Luzon where Digitel did not have fixed cable facilities. Globe quickly followed suit with a similar service at a monthly rate of Php995 which bundled a wireless landline and broadband internet connection of up to 384 kbps. This service is offered in limited areas of Metropolitan Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

Bayan launched a similar service at lower rates in the second half of 2006, which service maintains two major price points open to both residential and business subscribers. This service is available under two plans, a plan at a monthly rate of Php699 for customers in Metropolitan Manila and a plan at a monthly rate of Php599 for customers in selected regional areas of the Philippines.

In March 2007, we introduced the *PLP*, a postpaid fixed wireless service which was initially available only in regional areas where there were no available PLDT fixed cable facilities. There are two plans being offered for the *PLP* postpaid regular service: (a) Plan 600 with 600 free local outgoing minutes; and (b) Plan 1,000 with 1,000 free local outgoing minutes, and a charge of Php1 per minute in excess of free minutes for both plans. In March 2008, we introduced the prepaid variant of the *PLP*. There are two load plans being offered for the *PLP* prepaid service: (a) Php300 load denomination with free 150 local outgoing minutes; and (b) Php600 load denomination with free 600 local outgoing minutes. Both prepaid plans include unlimited incoming calls for one month, and charges Php2 per minute and Php1 per minute in excess of free local outgoing minutes for Php300 and Php600 load denominations, respectively.

Currently, the two *PLP* postpaid regular services (Plan 600 and Plan 1,000) are both with unlimited local outgoing calls. While for the *PLP* prepaid service: Php300 load denomination can be availed with free 500 local outgoing minutes and unlimited incoming calls for one month; whereas, a Php150 load denomination variant was introduced with free 250 local outgoing minutes and unlimited incoming calls valid only for 15 days. Both prepaid plans charge Php2 per call in excess of free local outgoing minutes for Php300 and Php150 denominations.

# C. International Long Distance Service

There are 11 licensed IGF operators in the country, including us. While we still maintain a leadership position in this highly competitive service segment of the industry, our market share in recent years has declined as a result of: (1) competition from other IGF operators; (2) an increase in inbound and outbound international long distance calls terminating to and originating from the growing number of cellular subscribers; and (3) the popularity of alternative and cheaper modes of communication such as social-networking, text messaging, e-mail, internet telephony and the establishment of virtual private networks for several corporate entities, further heightening the competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and cellular businesses, which are the origination points of outbound international calls. We also have introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers.

With respect to inbound calls into the Philippines, we have been pursuing a number of initiatives to mitigate the decline in our inbound telecommunications traffic, including modest reduction of our termination rates and identifying and limiting unauthorized traffic termination. In addition, we have also established presence, through our wholly-owned subsidiary PLDT Global, in key cities overseas to identify and capture Philippine terminating traffic at its source, maximize the use of our international facilities and develop alternative sources of revenue.

# D. National Long Distance Service

Our national long distance service business has been negatively affected by the growing number of cellular subscribers in the Philippines and the widespread availability and growing popularity of alternative economical non-voice methods of communication, particularly text messaging and e-mail. In addition, various Internet Service Providers have launched voice services via the internet to their subscribers nationwide.

While national long distance call volumes have been declining, we have remained the leading provider of national long distance service in the Philippines due to our significant subscriber base and ownership of the Philippines' most extensive transmission network.

PLDT launches from time to time promotions bundled with our other products to attract new subscribers including free PLDT-to-PLDT NDD service.

# E. Data and Other Network Services

The market for data and other network services is a growing segment in the Philippine telecommunications industry. The growth has been spurred by the significant growth in consumer and retail broadband internet access, enterprise resource planning applications, customer relationship management, knowledge processing solutions, online gaming and other e-services that drive the need for broadband and internet-protocol based solutions both here and abroad. Our major competitors in this area are Globe-Innove and Bayan. The principal bases of competition in data services market are coverage, price, value for money, bundles or free gifts, customer service and quality of service.

# PRINCIPAL COMPETITORS

The table below sets out our principal competitors' market share and other relevant information for the nine months ended September 30, 2013:

				Market S	Share <sup>(1)</sup>
	Operating			Fixed	
	Asset Base	Revenues	Core Income	Line <sup>(2)</sup>	Cellular
			(in millions)		
Globe <sup>(3)</sup>	156,200	70,325	9,526	23%	33%
Bayan <sup>(4)</sup>	-	-	-	-	-

(1) Based on subscriber base.

 Estimates based on publicly available information.
 Based on unaudited 302013 Form 17-0 filed with the PSE and SEC, the latest public filing available. <sup>(4)</sup> No publicly available information.

# MAJOR SUPPLIERS

Substantially all the telecommunications equipment thus far obtained in connection with our development programs has been purchased outside the Philippines, and we expect that a large portion of the equipment requirements of our future development programs will also be purchased from foreign sources.

The major vendor for Smart for its 2G and 3G Modernization and Expansion Program, as well as for its LTE deployment are Huawei Technologies, Co. Ltd., Nokia Siemens Networks and Ericsson Telecommunications, Inc. For mobile devices, Smart's principal suppliers are Apple South Asia and Samsung Electronics Co., Ltd.

For PLDT's continued NGN roll-out, expansion of optical transmission backbone and core equipment, Huawei Technologies, Co., Ltd. and CISCO are the principal suppliers of the hardware and software equipment. In July 2012, Ciena Corporation also joined PLDT's supply base when it was awarded the DFON Expansion Project, or DEP 16, further strengthening the pool for its optical transport transformation initiative. Also, being the first network operator in the Philippines to deploy 100G, PLDT is more able to extract more capacity out of existing fiber and support the delivery of high-bandwidth services and applications. This expansion and network upgrade will add significant bandwidth scalability, reliability and intelligence to our network infrastructure, consequently benefiting from an enhanced network resiliency and service flexibility.

FTTH roll-out was primarily initiated in 2011 with Fiberhome as a principal supplier for this endeavor. As of the last quarter of 2012, seven vendors were engaged in full turnkey, or FTK, basis to bring forth PLDT's aggressive target rollouts (over 100k lines deployed) for FTTH, and they are as follows:

- 1. Ericsson Telecommunications, Inc.
- 2. Fibercom Telecom Phils., Inc.
- 3. Fujikura Asia Limited
- 4. Huawei Technologies Phils, Inc. (for services) and Huawei International Pte., Ltd (for supply)
- 5. Sunsea Telecommunications Co. Ltd.
- 6. Tyco Electronics Philippines, Inc. (for services) and Tyco Electronics (Malaysia) SDN (for supply); and
- 7. Wuhan Fiberhome International Technology Co., Ltd.

# INTELLECTUAL PROPERTY RIGHTS

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases.

# LICENSES

PLDT, SubicTel, ClarkTel, Philcom, Smart, Digitel, SBI and CURE provide telecommunications services pursuant to legislative franchises which will expire, in the case of PLDT, on November 28, 2028; in the case of SubicTel, in 2019; in the case of ClarkTel, on June 30, 2024; in the case of Philcom, in November 2019; in the case of Digitel, in February 2019; in the case of Smart, on March 27, 2017 and with respect to spectrum transferred from PCEV, on May 14, 2019; in the case of SBI, on July 14, 2022; in the case of DMPI, on December 11, 2027; and in the case of CURE, on April 24, 2026, although PLDT has agreed to divest the CURE spectrum as a part of the NTC decision with respect to PLDT's acquisition of a controlling interest in Digitel. A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

# PLDT

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various dates between now and 2028. The CPCNs pursuant to which PLDT may provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT's CPCNs and provisional authorities have already expired, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The periods of validity of some of PLDT's CPCNs has been extended further by the NTC to November 28, 2028, coterminous with PLDT's current franchise under R.A. 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 have been granted by the NTC. See "Risk Factors and Other Considerations – Risk Factors Relating to The Company and Its Business – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes" for further discussion.

On August 22, 2008, PLDT was granted authority under NTC Case No. 2007-095 to operate in key cities and municipalities nationwide not yet covered by its existing CPCNs and/or authorizations. This approval extended the coverage of PLDT to all areas nationwide except for seven areas in Albay province. On July 17, 2009, the NTC granted PLDT a provisional authority under NTC Case No. 2006-078 to operate in the seven areas in Albay, thereby, authorizing it to operate nationwide.

On August 31, 2011, the NTC rendered its decision in NTC Case No. 2011-030 granting provisional authority for PLDT to participate in the ownership, construction and maintenance of the Asia Submarine-cable Express submarine cable network and further authorizing PLDT to construct the Philippine terminal station thereof in Daet, Province of Camarines Norte. The said provisional authority was valid for 18 months from receipt thereof by PLDT or up to February 28, 2013. PLDT filed an application for extension of its provisional authority on February 12, 2013. On July 05, 2013, the NTC granted PLDT a CPCN for a period of ten years based on its franchise under RA 7082.

# Digitel

Digitel operates its business pursuant to a number of provisional authorities and CPCNs. Under these CPCNs, Digitel may provide services to: (a) install, operate, maintain and develop telecommunications facilities in Regions I to V; (b) install, operate and maintain telephone systems/networks/services in Quezon City, Valenzuela City and Malabon, Metropolitan Manila and Tarlac; (c) install, operate and maintain an IGF in Binalonan, Pangasinan; (d) install, operate and maintain an IGF in Metropolitan Manila; (e) operate and maintain a National Digital Transmission Network; (f) install, operate, and maintain a nationwide CMTS using GSM and/or Code Division Multiple Access technology; and (g) install, operate and maintain a cable landing station. Digitel was also granted provisional authorities to: (a) install, operate and maintain LECs in the National Capital Region; and (b) install, operate and maintain LEC services in Visayas and Mindanao.

# Smart

Smart operates its cellular, international long distance and national long distance services pursuant to CPCNs, the terms of which will expire upon the expiration of its franchise. On July 22, 2002, Smart was granted separate CPCNs to operate a CMTS and an IGF. On August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which will also expire upon expiration of its franchise. On February 19, 2008, Smart was granted a CPCN to establish, install, maintain, lease and operate an international private leased circuit for a term that is coterminous with the expiration of its franchise. Prior to that, Smart was permitted to engage in these activities pursuant to a provisional authority and timely filed an application for the grant of such CPCN. On September 29, 2009, Smart was granted a provisional authority to install, operate and maintain a nationwide data communications network which is valid for 18 months or up to March 29, 2011. Smart filed a motion for issuance of CPCN or extension of provisional authority on March 3, 2011. Acting on the motion, the NTC issued an Order on June 24, 2011, extending the provisional authority from March 28, 2011 up to but not beyond March 28, 2014. On May 28, 2010, the NTC issued an order granting the extension of Smart's provisional authority to construct, install, operate and maintain a nationwide public calling office and payphone service from January 5, 2010 up to January 4, 2013. On January 2, 2013, Smart filed a Motion for Issuance of CPCN and/or extension of provisional authority. Acting on the said motion, the NTC issued an Order dated September 25, 2013, extending the provisional authority from January 4, 2013 up to January 4, 2017.

On December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked the highest among the competing operators with a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrums. Smart is required to pay annual license fees of Php115 million based on the 15 MHz of paired spectrum awarded to Smart.

Smart was awarded by the NTC additional frequency band 825-835/870-880 MHz for 3G use on March 6, 2008. Smart was required to pay to NTC the spectrum user fee, or SUF, of Php150 million based on the additional 10 MHz of 3G frequencies.

#### DMPI

On August 28, 2003, the NTC approved the assignment by Digitel of its authority to construct, install, operate and maintain a nationwide CMTS using GSM and/or CDMA technology to its wholly-owned subsidiary, DMPI. DMPI operates under the trade name *Sun Cellular* and is also a grantee of a 25-year legislative franchise under R.A. 9180, which will expire on December 11, 2027. DMPI was also awarded a 3G license by the NTC with 10MHz radio frequency allocation.

### SBI

On January 8, 2010, the NTC approved the transfer to SBI of PCEV's CPCN to establish, construct, operate and maintain a nationwide CMTS and PCEV is now an investment holding company. The CPCN for CMTS transferred to SBI had a validity of 15 years from the date of issuance or until August 18, 2012, which was extended for a period coterminous with the life of SBI's franchise, or July 2022, by order of the NTC on November 8, 2012.

SBI is a grantee of a 25-year legislative franchise under R.A. 8337, which will expire on July 14, 2022, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout the Philippines.

On August 26, 2009, the NTC granted SBI a CPCN for the installation, operation and maintenance of the data leased channel circuit network service for a period coterminous with the life of its existing franchise. SBI is a grantee of a provisional authority for the expansion of its data leased channel circuit network service in several areas in Zamboanga Sibugay, Sultan Kudarat, Southern Leyte, Biliran, Compostela Valley, Davao Oriental, Dinagat Island and Shariff Kabunsuan. The provisional authority is valid for 18 months from September 29, 2009 until March 29, 2011. SBI filed a motion for issuance of CPCN or extension of provisional authority on March 2, 2011. The said motion is still pending resolution by the NTC. SBI is also a grantee of a provisional authority for the installation, operation and maintenance of international leased line service that was valid up to February 2005 and the motion for extension of which remains pending with the NTC as at the date of this Prospectus.

# CURE

CURE is a grantee of a 25-year congressional franchise under R.A. 9130, which will expire on April 24, 2026, to construct, install, establish, maintain, lease and operate wire and/or wireless telecommunications system throughout

the Philippines. The NTC granted CURE a provisional authority to install, operate and maintain a nationwide 3G network on January 3, 2006 valid for 18 months, which was subsequently extended for three years from January 4, 2007 until January 3, 2010. On December 3, 2009, CURE filed a motion for the issuance of CPCN or extension of its provisional authority. CURE had also submitted its roll-out plan to the NTC on January 4, 2010. As at the date of this Prospectus, this motion is still pending with the NTC. The congressional franchise, spectrum and associated permits of CURE are expected to be divested as part of the NTC decision with respect to the Digitel acquisition. See "Information on the Company — Development Activities — Divestment of CURE" for further information.

# PDSI

PDSI is a grantee of a 25-year congressional franchise under R.A. 8992 which will expire on January 26, 2026 to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in and between provinces and municipalities in the Philippines and other countries and territories.

PDSI is a holder of a provisional authority issued by the NTC to construct, install, operate and maintain an information and data communication network in key cities and municipalities in the Philippines on December 22, 2005 with validity of 18 months or until June 22, 2007, which has been successively extended by the NTC thereafter. Most recently, on April 7, 2010, the NTC issued an order dated June 29, 2010 extending the provisional authority of PDSI to another three years or up to June 22, 2013. PDSI filed a Motion for Issuance of CPCN and/or extension of provisional authority on May 6, 2013 which remains pending as at this date. Likewise, PDSI is a registered VAS provider for internet access services and VoIP.

The following table sets forth the spectrum system, licensed frequency and bandwidth used by Smart, Digitel, SBI, CURE and PDSI:

Carrier	Spectrum System	Frequency Assignment	Bandwidth
Smart	ETACS/GSM 900	897.5-905/942.5-950 MHz	7.5 MHz
	GSM 1800	1725-1730/1820-1825 MHz	5.0 MHz
		1730-1732.5/1825-1827.5 MHz	2.5 MHz
		1735-1740/1830-1835 MHz	5.0 MHz
		1745-1750/1840-1845 MHz	5.0 MHz
		1780-1782.5/1875-1877.5 MHz	2.5 MHz
	3G (W-CDMA)	1920-1935/2110-2125 MHz	15.0 MHz
		825-835/870-880 MHz	10.0 MHz
Digitel	GSM 1800	1760-1775/1855-1870 MHz	15.0 MHz
5		1782.5-1785/1877.5-1880 MHz	2.5 MHz
		1935-1945/2125-2135 MHz	10.0 MHz
		2520-2535 MHz	15.0 MHz
SBI	AMPS/CDMA	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
	Wireless broadband	2670-2690 MHz <sup>(1)</sup>	20.0 MHz
		2400-2483.5 MHz <sup>(1)</sup>	73.0 MHz
		3400-3590 MHz <sup>(1)</sup>	94.0MHz
		5470-5850 MHz <sup>(1)</sup>	123.0MHz
CURE	3G	1955-1965/2145-2155 MHz <sup>(2)</sup>	10.0 MHz
PDSI	BWA (WiMAX)	2332.5-2362.5MHz	30.0 MHz

<sup>(1)</sup> SBI frequency assignments on these bands are non-contiguous and are on a per station and location basis.

The congressional franchise, spectrum and associated permits of CURE are expected to be divested as part of the NTC decision with respect to the Digitel acquisition. See "Information on the Company – Development Activities – Divestment of CURE" for further information.

# MATERIAL EFFECTS OF REGULATION ON OUR BUSINESS

Operators of IGFs and cellular telephone operators, pursuant to Executive Order No. 109, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install one rural exchange line for every ten urban exchange lines installed. Smart and PCEV were required to install 700,000 and 400,000 rural lines, respectively, and each has received a certificate of compliance from the NTC.

PLDT, SubicTel, ClarkTel, Philcom, Smart, Digitel, PCEV, SBI and CURE are required to pay various permit, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see "Legal Proceedings —NTC SRF."

During the 15th Philippine Congress in 2010, Smart was requested to attend a hearing regarding House Bill No. 1224 or the Corporate Social Responsibility Act Bill filed by Rep. Gloria Macapagal-Arroyo and Rep. Diosdado Macapagal Arroyo. Aside from this proposed legislation, both the Congress and the Senate of the Philippines have

pending bills filed by various legislators concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. Senate Bill No. 1 introduced by Sen. Juan Ponce Enrile seeks to penalize unfair trade and anticompetitive practices in restraint of trade, unfair competition, abuse of dominant power and aims to strengthen the powers of regulatory authorities. The bill penalizes cartelization, monopolization, abuse of monopoly power or dominant position, and other unfair competition practices. The PLDT Group submitted its position paper on the bill on November 11, 2010. Other Senate bills which have been introduced during the 15th Congress on the subject matter are Senate Bill nos. 123, 175 and 1838. The various committee hearings on these Senate bills have already been concluded and the Senate of the Philippines is expected to come out with one final version in substitution of these various Senate Bills any time soon. HB No. 4835, a consolidated bill in substitution of HB Nos. 549, 913, 1007, 1583, 1733, and others, is a similar bill proposed in the House of Representatives, which penalizes anticompetitive agreements, abuse of dominant position, and anti-competitive mergers and establishes a Philippine Fair Competition Commission, or the Commission. Under this proposed bill, the Commission has the power, among others, to commence investigations on transactions, agreements, or acts, that prevent, distort or restrict competition. It is relevant that the bill considers a prima facie case of anti-competitive agreement when two or more firms that are ostensibly competing for the same relevant market and actually perform or complementary acts among themselves which tend to bring about artificial and unreasonable increase, decrease or fixing in the price of any goods or when they simultaneously and unreasonably increase, decrease or fix the prices of their seemingly competing goods thereby lessening competition in the relevant market among themselves. This bill has undergone third reading but to date, no final version has yet been released.

There are also bills introduced in the 15<sup>th</sup> Congress of the Philippines which seek to regulate interconnection charges by either prescribing lower rates or, worse, abolishing the same. Some of them are HB Nos. 4939 of Representative Winston Castelo, HB No. 4598 of Representative Joseph Violago and HB No. 2858 of Representatives Rufus B. Rodriguez and Maximo B. Rodriguez. Committee hearings on these bills are ongoing.

The NTC has issued a number of directives that regulate the manner in which we conduct our business:

- On July 3, 2009, the NTC issued Memorandum Circular No. 03-07-2009, imposing an extension of the expiration of the prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart and DMPI have been implementing the new validity period of prepaid loads since July 19, 2009.
- On July 7, 2009, the NTC amended its rules on broadcast messaging in Memorandum Circular No. 04-07-2009, which prohibits content and/or information providers from initiating push messages. It further requires that requests for services must be initiated by the subscribers and not forced upon them by the public telecommunications entities and/or content providers. It further mandates that subscribers be sent a notification when they subscribe for any service and be given an option whether to continue with the availed service.
- On July 23, 2009, the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to charge calls on a maximum six-second per pulse basis instead of the previous per minute basis whether the subscriber is prepaid or postpaid. The NTC granted Smart the provisional authority to charge new rates and implement six-second per pulse scheme on December 5, 2009. Smart subsequently implemented the six-second per pulse directive by billing on a six-second per pulse basis, if subscribers entered additional dialing numbers as a prefix before the actual number. The NTC opposed Smart's implementation of the six-second per pulse directive. In December 2009, Smart and other CMTS providers challenged the implementation of the NTC memorandum circular before the Court of Appeals, which issued a writ of preliminary injunction preventing the NTC from implementing its six-second per pulse billing directive. On December 28, 2010, the Court of Appeals promulgated a decision finding that the NTC had no basis to impose the rates it fixed for the six-second per pulse and that the CMTS operators have the option to file their rate applications anew. However, the Court ruled also that under the NTC memorandum circular, the six-second per pulse is the default mode and that the NTC has the power to regulate the rates of CMTS providers under Section 17 of R.A. 7925, even in the absence of ruinous competition, monopoly, cartel or combination thereof in restraint of free competition. The NTC, through the Office of the Solicitor General filed a motion for partial reconsideration of the decision which Smart opposed. Smart and the other petitioners, except DMPI, likewise filed separate motions for partial reconsideration. The Court of Appeals denied all motions for reconsideration on January 19, 2012. Smart and CURE filed their petitions for review with the Supreme Court on March 15, 2012 and March 12, 2012, respectively. The six-second per pulse billing scheme is expected to have a negative impact on Smart's revenue, profit and ARPU as this is expected to decrease the amount of time billed per call as a result of moving to shorter billing intervals of six seconds from the previous one minute.

- On February 18, 2011, the NTC issued Memorandum Circular No. 01-02-2011 which among others required mobile phone providers like Smart and DMPI to make internet access through mobile phones optional; inform their subscribers of charges for internet access through mobile phones; and remind subscribers through SMS if at least 50% of credit limit has already been consumed.
- On October 24, 2011, the NTC issued Memorandum Circular No. 02-10-2011 which mandates that interconnection charge for SMS between two separate networks shall not be higher than Php0.15 per SMS. Accordingly, Smart amended its interconnection amendments with other SMS providers in compliance with the circular. However, the NTC issued a show cause order dated December 12, 2011 requiring it to explain in writing within 15 days from receipt of the order why it has not lowered SMS retail rates despite the issuance of Memorandum Circular No. 02-10-2011. Smart and DMPI filed their answers on January 12, 2012, arguing, among others, that the circular does not mandate the reduction of SMS retail rates and that the NTC has no power to impose rates on mobile operators.
- On July 15, 2011, the NTC issued Memorandum Circular No. 7-7-2011 which required broadband service providers to specify the minimum broadband/internet connection speed and service reliability and the service rates in advertisements, flyers, brochures and service agreements. The said Memorandum Circular also set the minimum service reliability of broadband service to 80%.
- On December 19, 2011, the NTC issued a decision lowering the interconnection charge to/from LEC and to/from CMTS to Php2.50 per minute, from Php4.00 per minute for LEC to CMTS and Php3.00 per minute from CMTS to LEC, making it in parity with each other. PLDT and Smart separately filed their respective motions for reconsideration alleging among others that interconnection, including the rates thereof, should be by law a product of bilateral negotiations between the parties and the decision was unconstitutional as an invalid exercise by the NTC of its quasi-legislative powers and violates the constitutional guarantee against non-impairment of contracts. As at the date of this report, the matter is pending before the NTC.

See "Risk Factors and Other Considerations – Risk Factors Relating to the Company and Its Business – Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes" for further discussion.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law became effective; or (b) the entity's first start of commercial operations, whichever date is later. PLDT and PCEV have complied with this requirement. However, Smart and DMPI have not conducted a public offering of its shares. If Smart and DMPI are found to be in violation of R.A. 7925, this could result in the revocation of the franchises of Smart and DMPI and in the filing of a *quo warranto* case against Smart and DMPI by the Office of the Solicitor General of the Philippines. See "Risk Factors and Other Considerations – Risk Factors Relating to the Company and Its Business – The franchise of Smart and DMPI may be revoked due to their failure to conduct a public offering of their shares" for further discussion.

On April 14, 2009, the NTC released the implementing guidelines on developing reference access offers, which are statements of the prices, terms and conditions under which a telecommunications carrier proposes to provide access to its network or facilities to another such carrier or value-added service provider.

# COMPLIANCE WITH ENVIRONMENTAL LAWS

We have not been subject to any material fines or legal or regulatory action involving noncompliance with environmental regulations of the Philippines. We are not aware of any noncompliance in any material respect with relevant environmental protection regulations.

# EMPLOYEES AND LABOR RELATIONS

As at September 30, 2013, we had 18,135 employees within the PLDT Group, with 8,243 and 9,892 employees in our wireless and fixed line groups, respectively. PLDT had 6,634 employees as at September 30, 2013, of which 17% were rank-and-file employees, 76% were management/supervisory staff and 7% were executives. This number represents a decrease of 840, or approximately 4%, from the staff level as at December 31, 2012. From a peak of 20,312 employees, as at December 31, 1994, PLDT's number of employees declined by 13,678 employees, or 67%, as at September 30, 2013.

We and our business units had the following employees as at September 30, 2013 and 2012, and December	<sup>-</sup> 31,
2012, 2011 and 2010:	

	Septemb	September 30,		December 31,		
	2013	2012	2012	2011	2010	
PLDT Group	18,135	19,086	18,975	19,452	15,407	
Wireless	8,243	8,467	8,513	8,043	5,165	
Fixed Line	9,892	10,619	10,462	11,409	10,242	
LEC	7,151	7,811	7,546	9,072	7,395	
Others	2,741	2,808	2,916	2,337	2,847	
PLDT Only	6,634	6,688	6,617	7,067	7,008	

The decrease in the number of employees within the PLDT Group from the year 2012 to the first nine months of 2013 was primarily due to the availment of the MRP by Smart and DMPI employees as at September 30, 2013.

PLDT has three employee unions, representing in the aggregate 5,469, or 15% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees' union, our supervisors' union and our sales supervisors' union to be good.

On December 3, 2012, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees' union, concluded and signed a new three-year CBA, covering the period from November 9, 2012 to November 8, 2015. This CBA provides each member a special bonus equivalent to one month's salary (computed at the salary rate prevailing prior to November 9, 2012) plus Php37,000; increase of the monthly salary of Php2,700, Php2,900 and Php3,300 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php9,000 to Php10,000; an increase in the amount of coverage under the group life insurance plan from Php750,000 to Php850,000; Php55,000 funeral assistance for the death of a dependent; additional contribution of Php2 million to the Educational Trust Fund; and relocation assistance of Php40,000. Other provisions of this CBA include increases in the rice subsidy, hospitalization benefits for dependents, daily *per diem*. New features of this CBA include prescription eyeglass subsidy and funding assistance for a joint Management-Union environmental awareness education program.

On December 22, 2010, a CBA was signed by PLDT and Gabay ng Unyon sa Telekomunikasyon ng mga Superbisor, or GUTS, our supervisors' union, covering a three-year period from January 1, 2011 to December 31, 2013. This CBA provides for increases of the monthly salary by 8%, 9% and 9% of basic pay for the first, second and third year of the CBA, respectively, or Php3,000 whichever is higher; a goodwill signing and expeditious agreement bonuses of Php30,000 and Php43,000, respectively; an increase in the yearly Christmas gift certificate from Php9,000 to Php10,000; Php45,000 funeral assistance for the death of a qualified dependent; and additional contribution of Php2 million to the Educational Trust Fund. Other provisions include increases in rice subsidy, *per diem* allowance and hospitalization benefits for dependents. Negotiations for a new CBA covering the period from January 1, 2014 to December 31, 2016 are still ongoing as at the date of this report.

On January 6, 2011, a new CBA covering a three-year period starting from January 1, 2011 was signed by PLDT and PLDT Sales Supervisors' Union, or PSSU, which provided for salary increases for the period from January 1, 2011 to December 31, 2013. This CBA provides for increases of the monthly salary by 8%, 9% and 9% of basic pay for the first, second and third year of the CBA, respectively, or Php3,000 whichever is higher; a one-time lump sum clothing accessory allowance of Php8,000; a goodwill signing bonus of Php30,000 and an expeditious agreement bonus of Php43,000; an increase in the yearly Christmas gift certificate from Php9,000 to Php10,000; Php45,000 funeral assistance for the death of a qualified dependent; and additional contribution of Php350,000 to the Educational Trust Fund. Other provisions included increases in rice subsidy, *per diem* allowance and hospitalization benefits for dependents.

# PENSION AND RETIREMENT BENEFITS

# Defined Contribution Plan

Smart and certain of its subsidiaries have a host defined contribution plan under which it recognizes an expense for contribution made to such plan in relation to services rendered by covered employees. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, such excess is recognized as a prepaid asset to the extent that the prepayment will lead to a reduction in future payments. When the expected future value of the plan assets is below the future expected value of the retirement benefits prescribed under R.A. 7641, otherwise known as "The Retirement Pay Law", such deficit is accounted for similar to defined benefit accounting.

# Defined Benefit Pension Plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective funds' Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements comprising actuarial gains and losses, return on plan assets and any changes in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimation of Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* to the accompanying consolidated financial statements for more details.

Net consolidated pension benefit costs from continuing operations amounted to Php525 million, Php561 million and Php797 million for the years ended December 31, 2012, 2011 and 2010, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php170 million, Php8 million and Php54 million for the years ended December 31, 2012, 2011 and 2010, respectively. The prepaid benefit costs from continuing operations amounted to Php170 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The accrued benefit costs from continuing operations amounted to Php439 million and Php337 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The accrued benefit costs from continuing operations amounted to Php491 million, Php439 million and Php337 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php206 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments and Note 25 – Employee Benefits – Defined Benefit Pension Plans to the accompanying consolidated financial statements for further discussion.

# **DESCRIPTION OF PROPERTIES**

We own four office buildings located in Makati City and own and operate 481 exchanges nationwide, of which 58 are located in the Metropolitan Manila area, including DMPI's 10 exchanges. The remaining 423 exchanges, including DMPI's 198 exchanges, are located in cities and small municipalities outside Metropolitan Manila area. We also own radio transmitting and receiving equipment used for international and domestic communications. As at September 30, 2013, we had 9,452 cell sites, 20,657 cellular/mobile broadband base stations and 2,903 fixed wireless broadband base stations, of which approximately 10,000 are 4G-capable broadband stations. As at December 31, 2012, we had 9,979 cell sites, 18,943 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations.

As at September 30, 2013, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 72% consisted of cable, wire and cellular facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;
- 13% consisted of central office equipment, including IGFs, pure national toll exchanges and combined local and toll exchanges;
- 10% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 1% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and
- 4% consisted of other work equipment.

For more information on these properties, see Note 9 - Property, Plant and Equipment to the accompanying consolidated financial statements.

These properties are located in areas where our subscribers are being served. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The majority of our connecting lines are above or under public streets and on properties owned by others. For example, for many years, the PLDT Group has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically five-year and more recently one-year terms.

PLDT's, Smart's, PCEV's and Digitel's properties are free from any mortgage, charge, pledge, lien or encumbrance; however, a portion of ePLDT's property is subject to liens.

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipment. For more information on the obligations relating to these properties and long-term obligations, see *Note 27 – Financial Assets and Liabilities* to the accompanying consolidated financial statements.

For 2013, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2013 estimated consolidated capital expenditures is approximately Php29 billion, of which approximately Php12 billion is estimated to be spent by PLDT, approximately Php16 billion is estimated to be spent by Smart; approximately Php500 million is estimated to be spent by DMPI; and the balance represents the estimated capital spending of our other subsidiaries. Smart's capital spending is focused on building out its coverage, leveraging the capabilities of its newly modernized network, expanding its transmission network, increasing international bandwidth capacity and expanding its 3G and wireless broadband networks in order to enhance its data /broadband capabilities. Smart is also enhancing its network and platforms infrastructure and systems to support solutions deployment, campaign analytics and service delivery platform to enable customized and targeted services. PLDT's capital spending is intended principally to finance the continued build-out and upgrade of its broadband data and IP infrastructures and for its fixed line data services and the maintenance of its network. DMPI's capital spending is intended principally to

finance its mainstream services and integration with the PLDT Group network of its core and transmission network to increase penetration, mainly in provincial areas to achieve greater business benefits from a closely synergized environment.

# LEGAL PROCEEDINGS

Except as disclosed in the following paragraphs, neither PLDT nor any of its subsidiaries is a party to, and none of their respective properties is subject to, any pending legal proceedings that PLDT considers to be potentially material to its and its subsidiaries' business.

# NTC SRF

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals, but, as set forth below, was rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on the actual amount paid (inclusive of premiums) for the "capital stock subscribed or paid" and not on par or market value. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as basis not only capital stock subscribed or paid, but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the Assessment Letter and Demand Letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

On June 26, 2013, the Supreme Court issued a resolution denying with finality the Motion for Reconsideration of the NTC. PLDT received the Supreme Court's resolution on August 6, 2013, which serves as the termination of the case.

# Arbitration with Eastern Telecommunications Philippines, Inc.

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have

agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other), ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

### Matters Relating to Gamboa Case and the recent Jose M. Roy III Petition

In the Gamboa Case, the Supreme Court in its decision dated June 28, 2011, or the Gamboa Case Decision, held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". The Gamboa Case Decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution. Several Motions for Reconsideration of the Gamboa Case Decision became final and executory.

While PLDT was not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized preferred capital stock into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 12, 2012, the Board of Directors of PLDT approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a Filipino corporation. On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, or the Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of the Voting Preferred Shares, PLDT's foreign ownership decreased from 58.4% of outstanding common stock as at October 15, 2012 to 34.5% of outstanding voting stocks (common stock and Voting Preferred Stock) as at October 16, 2012. BTFHI is wholly-owned by the PLDT Beneficial Trust Fund. Both BTFHI and the PLDT Beneficial Trust Fund are entities separate and independent from PLDT.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of September 30, 2013, PLDT's foreign ownership was 32.67% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.95% of its total outstanding capital stock.

On June 10, 2013, PLDT was served a copy of a Petition for Certiorari under Rule 65 of the Revised Rules of Court, or the Petition, filed with the Supreme Court by Jose M. Roy III as petitioner against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT as respondents. The Petition primarily questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine Company pursuant to the Gamboa Case Decision and Section 11, Article XII of the Constitution. Per the Philippine SEC Guidelines, the Philippine nationality requirement of Section 11, Article XII of the Constitution is met if at least 60% of: (a) the outstanding voting stocks; and (b) the outstanding capital stock of the company is owned by Filipinos.

The Petition admits that if the Philippine SEC Guidelines were to be followed, PLDT would be compliant with the nationality requirement of the Philippine Constitution. However, the Petition claims that the Philippine SEC Guidelines do not conform to the letter and spirit of the Constitution and the Gamboa Case Decision supposedly requiring the application of the 60%-40% ownership requirement in favor of Filipino citizens separately to each class of shares, whether common, preferred non-voting, preferred voting or any other class of shares, or the Other Gamboa Statements. The Petition also claims that the PLDT Beneficial Trust Fund does not satisfy the effective Filipino-control test for purposes of incorporating BTFHI which acquired the 150 million Voting Preferred Shares.

Wilson C. Gamboa, Jr., Daniel V. Cartagena, John Warren P. Gabinete, Antonio V. Pesina, Jr., Modesto Martin Y. Mamon and Gerardo C. Erebaren, or the Intervenors, filed a Motion for Leave to file Petition-In-Intervention dated July 16, 2013 which the Supreme Court granted in a Resolution dated August 6, 2013. The Petition-In-Intervention raised identical arguments and issues as that of the Petition.

PLDT, through counsels, filed its Comment on the Petition on September 5, 2013. In its Comment, PLDT raised the following defenses: (a) Petitioner's direct recourse to the Supreme Court in filing the petition violates the fundamental doctrine of the hierarchy of courts. There are no compelling reasons to invoke the Supreme Court's original jurisdiction; (b) The Petition was prematurely brought before the Supreme Court. Petitioner failed to exhaust administrative remedies before the Philippine SEC, and there are facts yet to be established (in the lower courts) that are necessary for a proper and complete ruling; (c) The Petition is in the nature of a petition for mandamus and/or declaratory relief which, under Rules 65 and 63 of the Rules of Court, are not within the exclusive and/or original jurisdiction of the Supreme Court, as provided under Article VIII, Sections 5(1), 5(5), 6 and 11 of the Constitution and Rule 56 of the Rules of Court; (d) The Petition must be dismissed in as much as it is challenging the validity and constitutionality of a Memorandum Circular, which was issued in the exercise of the Philippine SEC's quasi-legislative power, for which a petition for certiorari is an inappropriate remedy; (e) Assuming arguendo that the issuance of Philippine SEC Memorandum Circular No. 8 involved the exercise by the Philippine SEC of its quasi-judicial power, the Petition still cannot prosper since the issue of the validity and constitutionality of Philippine SEC Memorandum Circular No. 8 does not pertain to errors of jurisdiction on the part of the Philippine SEC; (f) Petitioner is not the proper party to question the constitutionality of the Philippine SEC Guidelines and PLDT's compliance with the Gamboa decision and the Petition is likewise not a valid taxpayer's suit and should not be entertained by the Supreme Court; (g) The Petition seeks relief that effectively deprives the necessary and indispensable parties affected thereby (such as, BTFHI, MediaQuest, PLDT Beneficial Trust Fund, and all corporations in which the PLDT Beneficial Trust Fund made an investment and their subsidiaries) of their constitutional right to due process, all of whom were not impleaded as parties; and (h) Philippine SEC Memorandum Circular No. 8 merely implemented the dispositive portion of the Gamboa Case Decision.

Particularly, for the defense under (h) above, PLDT argued that: (a) the only binding and enforceable part of the Gamboa Case Decision is the dispositive portion, which defined the term "capital" under Article XII, Section 11 of the 1987 Constitution as "shares of stock entitled to vote in the election of directors", and such dispositive portion of the Gamboa Case Decision is properly reflected and enforced in Philippine SEC Memorandum Circular No. 8. The Other Gamboa Statements were just "obiter dicta" or expressions of opinion which have no precedential value and binding effect; and (b) with respect to the nationality of PLDT Beneficial Trust Fund and BTFHI, the fundamental requirements which needs to be satisfied in order for PLDT Beneficial Trust Fund and BTFHI to be considered Filipino is for PLDT Beneficial Trust Fund's Trustees to be Filipinos and 60% of the Fund will accrue to the benefit of Philippine nationals. This is reflected in Section 3(a) of R. A. No. 7042, as amended, or the Foreign Investment Act, which provides that the term "Philippine national" includes "a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of "Philippine nationals". Both requirements are present with respect to the PLDT Beneficial Trust Fund. Consequently, there is no question that PLDT Beneficial Trust Fund and BTFHI are Filipino shareholders for purposes of classifying their 150 million shares of Voting Preferred Stock in PLDT and as a result, more than 60% of PLDT's total voting stock is Filipino-owned. PLDT is thus compliant with the Philippine nationality requirement under Article XII, Section 11 of the 1987 Constitution.

PLDT filed its Comment on the Petition-in-Intervention on October 22, 2013. PLDT raised identical defenses and arguments in its Comment on the Petition-in-Intervention as that of its Comment on the Petition.

The resolution of the Jose M. Roy III Petition and the Petition-in-Intervention remains pending with the Supreme Court.

Other disclosures required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments to the accompanying consolidated financial statements.

# MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

# MARKET INFORMATION

### Common Capital Stock and ADSs

The shares of common stock of PLDT are listed and traded on the PSE and, prior to October 19, 1994, were listed and traded on the American Stock Exchange and Pacific Exchange in the United States. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing ADSs with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary of PLDT's ADR facility. The ADSs are listed on the NYSE and are traded on the NYSE under the symbol of "PHI".

The public ownership level of PLDT common shares listed on the PSE as at October 31, 2013 is 53.86%.

For the period from January 1 to October 31, 2013, a total of 36.7 million shares of PLDT's common capital stock were traded on the PSE. During the same period, the volume of trading was 9.5 million ADSs on the NYSE.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel, see *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel* to the accompanying consolidated financial statements.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

As at October 31, 2013, 10,517 stockholders were Philippine persons and held approximately 45.56% of PLDT's common capital stock. In addition, as at October 31, 2013, there were a total of approximately 44.5 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 306 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the full quarterly period during 2012 and 2011, for the three quarters and for the months of October, November and December of 2013 were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2013				
First Quarter	Php3,004.00	Php2,530.00	US\$74.08	US\$62.11
Second Quarter	3,290.00	2,682.00	78.63	62.30
Third Quarter	3,110.00	2,680.00	71.76	59.04
Fourth Quarter	3,054.00	2,832.00	71.36	65.75
October	3,054.00	2,832.00	71.36	65.75
November	2,870.00	2,572.00	66.44	59.26
December (through December 3, 2013)	2,756.00	2,686.00	62.80	61.52
2012				
First Quarter	2,886.00	2,542.00	67.50	58.46
Second Quarter	2,750.00	2,290.00	63.71	52.34
Third Quarter	2,940.00	2,670.00	69.44	62.47
Fourth Quarter	2,794.00	2,480.00	66.30	59.53
2011				
First Quarter	2,550.00	1,990.00	58.80	46.08
Second Quarter	2,496.00	2,202.00	58.16	52.16
Third Quarter	2,434.00	2,096.00	58.68	47.90
Fourth Quarter	2,598.00	2,116.00	58.95	47.99

# Holders

As at October 31, 2013, there were 12,018 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stocks:

		Number			Approximate % to Total	
			of Shares	Amount of	Outstanding	
	Name of Holder of Record	Nationality	Held	Holding	Common Stock	
1.	PCD Nominee Corporation	Various – Foreign	38,184,849	Php190,924,245	_	
		Various – Filipino	39,101,880	∫ <sub>195,509,400</sub> ∫	35.77	
2.	J. P. Morgan Asset Holdings (Hong Kong) Ltd.	Chinese	43,285,347	216,426,735	20.03	
З.	Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	12.05	
4.	NTT DOCOMO, Inc.	Japanese	22,796,902	113,984,510	10.55	
5.	Metro Pacific Resources, Inc.	Filipino	21,556,676	107,783,380	9.98	
6.	NTT Communications Corporation	Japanese	12,633,487	63,167,435	5.85	
7.	Social Security System, or SSS	Filipino	8,338,379	41,691,895	3.86	
8.	Pan-Malayan Management & Inv Corp.	Filipino	640,000	3,200,000	0.30	
9.	Manuel V. Pangilinan	Filipino	244,450	1,222,250	0.11	
10.	Albert F. &/or Margaret Gretchen V. del Rosario	Filipino	163,954	819,770	0.08	
11.	Alfonso T. Yuchengco	Filipino	118,458	592,290	0.05	
12.	Edward &/or Anita Tortorici	American	96,874	484,370	0.04	
13.	Enrique T. Yuchengco, Inc.	Filipino	59,868	299,340	0.03	
14.	James L. Go	Filipino	57,914	289,570	0.03	
15.	JDC Investment Realty Enterprise, Inc.	Filipino	47,708	238,540	0.02	
16.	Par Investment & Realty Corporation	Filipino	38,390	191,950	0.02	
17.	Hare & Company	American	34,811	174,055	0.02	
18.	Sze Ye Se	Filipino	30,000	150,000	0.01	
19.	George Verstraete	American	29,744	148,720	0.01	
20.	Traders Royal Bank	Filipino	29,682	148,410	0.01	
			213,523,636	Php1,067,618,180		

# Dividends

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2010, 2011 and 2012 and for the nine months ended September 30, 2013:

		Date		Amount			
Earnings	Approved	Record	Payable	Per share	Total Declared		
				(in pesos)	(in millions)		
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	Php14,57		
2010	March 1, 2011	March 16, 2011	April 19, 2011	78	14,56		
2010	March 1, 2011	March 16, 2011	April 19, 2011	66	12,32		
			I ·	222	41,46		
2011	August 2, 2011	August 31, 2011	September 27, 2011	78	14,56		
2011	March 6, 2012	March 20, 2012	April 20, 2012	63	13,61		
2011	March 6, 2012	March 20, 2012	April 20, 2012	48	10,37		
				189	38,54		
2012	August 7, 2012	August 31, 2012	September 28, 2012	60	12,96		
2012	March 5, 2013	March 19, 2013	April 18, 2013	60	12,96		
2012	March 5, 2013	March 19, 2013	April 18, 2013	52	11,23		
				172	37,1		
2013	August 7, 2013	August 30, 2013	September 27, 2013	63	13,6		

Our current dividend policy is to pay out 70% of our core earnings per share taking into consideration the interest of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event no investment opportunities arise, we may consider the option of returning

additional cash to our shareholders in the form of special dividends up to the 30% balance of our core earnings or share buybacks. We were able to declare dividend payouts of approximately 100% of our core earnings for the six consecutive years from 2007 to 2012. The accumulated equity in the net earnings of our subsidiaries, which form part of our retained earnings, are not available for distribution unless realized in the form of dividends from such subsidiaries. Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippine, PLDT's transfer agent in Manila, Philippines, which acts as the dividend-disbursing agent, converts the Philippine peso dividends into U.S. dollars at the prevailing exchange rates and remits the dollar dividends abroad, net of any applicable withholding tax.

The subsidiaries of the Issuer pay dividends subject to the requirements of applicable laws and regulations and availability of unrestricted retained earnings, without any restriction imposed by the terms of contractual agreements. Notwithstanding the foregoing, the subsidiaries of the Issuer may, at any time, declare and pay such dividends depending upon the results of operations and future projects and plans, the respective subsidiary's earnings, cash flow, financial condition, capital investment requirements and other factors.

# Selected Financial Data and Key Performance Indicators

The selected financial information set forth in the following tables has been derived from PLDT's unaudited interim consolidated financial statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012 and its audited consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010. This should be read in conjunction with the unaudited interim consolidated financial statements and audited consolidated financial statements annexed to this Prospectus, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included therein.

PLDT's unaudited interim consolidated financial statements were prepared in compliance with Philippine Financial Reporting Standards and reviewed by SGV & Co., in accordance with Philippine Standard on Review Engagement ("PSRE") 2410, "Review of Interim Financial Information Performed by Independent Auditor of the Entity." PLDT's audited consolidated financial statements re-issued to reflect the impact of new accounting standards effective January 1, 2013 with retrospective application were prepared in accordance with the Philippine Financial Reporting Standards and were audited by SGV & Co., in accordance with Philippine Standards on Auditing. The consolidated statement of financial position amounts as at December 31, 2010 are equivalent to the amounts as at January 1, 2011 as presented in the audited consolidated financial statements, included in this Prospectus.

The summary financial information set out below does not purport to project the results of operations or financial condition of PLDT for any future period or date.

		ended September		31,	
	2013	2012 <sup>(1 and 2)</sup>	2012 <sup>(2)</sup>	2011 <sup>(1, 2 and 3)</sup>	2010 <sup>(1 and 2)</sup>
			(in millions)		
Income Statement Data:	DI 101505	DI 101.000	DI 100 101	DI 140.470	DI 450.014
Revenues	Php124,585	Php121,363	Php163,484	Php148,479	Php150,814
Service revenues	121,604	119,050	160,189	145,834	148,597
Non-service revenues	2,981	2,313	3,295	2,645	2,217
Expenses	89,220	88,134	122,980	106,424	95,287
Other income (expenses)	(2,168)	3,039	3,102	(970)	(1,904
Income before income tax from continuing operations	33,197	36,268	43,606	41,085	53,623
Net income (loss)	28,995	28,359	36,099	31,218	39,825
Continuing operations	26,926	27,996	35,556	30,351	40,314
Discontinued operations	2,069	363	543	867	(489)
Core income	28,786	27,690	36,907	38,616	41,594
Continuing operations	28,885	27,332	36,356	37,827	41,056
Discontinued operations	(99)	358	551	789	538
EBITDA from continuing operations	59,550	57,205	75,388	78,225	82,049
EBITDA margin <sup>(4)</sup>	49%	48%	47%	54%	55%
Reported earnings per share attributable to common equity holders of PLDT:					
Basic	133.81	131,20	167.07	161.05	210.53
Diluted	133.81	131.20	167.07	160.91	210.53
Reported earnings per share from continuing operations attributable to common equity holders of PLDT:					
Basic	124.23	129.52	164.55	156.52	213.15
Diluted	124.23	129.52	164.55	156.39	213.15
Core earnings per common share:					
Basic	133.03	127.99	170.58	199.39	220.23
Diluted	133.03	127.99	170.58	199.22	220.23
Core earnings per common share from continuing operations:					
Basic	133.48	126.33	168.03	195.27	217.35
Diluted	133.48	126.33	168.03	195.10	217.35
Other Data:					
Net cash flows provided by operating activities	51,605	54,822	80,370	79,209	77,260
Net cash flows used in investing activities	8,001	22,765	39,058	29.712	23,283
Capital expenditures <sup>(5)</sup>	14,888	19,294	36,396	31,207	28,766
Net cash flows used in financing activities	52,652	39,125	48,628	40,204	55,322
Operational Data	,		,	,	,
Number of cellular subscribers	72,498,270	68,599,733	69,866,458	63,696,629	45,636,008
Number of fixed line subscribers	2,073,831	2,127,188	2,063,794	2,166,295	1,822,105
Number of troadband subscribers:	3,328,369	3,146,667	3,246,423	2,910,682	1,999,025
Fixed Line	949,762	879,237	887,399	842,273	643,048
Wireless	2,378,607	2,267,430	2,359,024	2,068,409	1,355,977
Number of employees:	18,135	19,086	19,125	19,452	14,737
Fixed Line	9,892	10,619	10,462	11,409	9,572
LEC	7,151	7,811	7,546	9,072	7,395
Others	2,741	2,808	2,916	2,377	2,177
Wireless	8,243	8,467	8,663	8,043	5,165
		September 30,		December 31,	
		2013	2012(2)	2011 <sup>(2 and 6)</sup>	2010 <sup>(2)</sup>
Statement of Financial Position Data:					
Total assets		300 817	405 815	101 702	278 083

	2013	2012(2)	2011 <sup>(2 and 0)</sup>	2010(2)
Statement of Financial Position Data:				
Total assets	390,817	405,815	401,792	278,083
Property, plant and equipment	191,578	200,078	200,142	163,184
Cash and cash equivalents and short-term investments	30,374	37,735	46,615	37,347
Total equity attributable to equity holders of PLDT	139,337	145,550	153,860	97,416
Notes payable and long-term debt, including current portion	109,453	115,792	117,275	89,646
Net debt <sup>(7)</sup> to equity ratio <sup>(8)</sup>	0.57x	0.54x	0.46x	0.54x

As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations to the accompanying consolidated financial statements for a further discussion of the dessification of the BPO segment as an asset held-for-sale.
 As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.
 Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011

(6)

Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011. EBITDA margin for the period is measured as EBITDA from continuing operations divided by service revenues. Capital expenditures consist of additions to property, plant and equipment and interest paid – capitalized to property, plant and equipment. The December 31, 2011 comparative assets and liabilities were adjusted to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel to the accompanying consolidated financial statements for further discussion.

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

The following table shows our fina	icial soundness indicators as at	t September 30, 2013 and 20	12, and December
31, 2012, 2011 and 2010:			

	Pro-forma	September 30,		December 31,		
	Ratios <sup>(1)</sup>	2013	2012	2012	2011	2010
Current Ratio <sup>(2)</sup>	0.55:1.0	0.53:1.0	0.61:1.0	0.69:1.0	0.61:1.0	0.75:1.0
Net Debt to Equity Ratio <sup>(3)</sup>	0.64:1.0	0.57:1.0	0.61:1.0	0.54:1.0	0.46:1.0	0.54:1.0
Net Debt to EBITDA Ratio <sup>(4)</sup>	1.14:1.0	1.02:1.0	1.17:1.0	1.04:1.0	0.90:1.0	0.64:1.0
Total Debt to EBITDA Ratio <sup>(5)</sup>	1.53:1.0	1.41:1.0	1.68:1.0	1.54:1.0	1.50:1.0	1.09:1.0
Asset to Equity Ratio <sup>®</sup>	2.87:1.0	2.80:1.0	2.83:1.0	2.79:1.0	2.61:1.0	2.85:1.0
Interest Coverage Ratio <sup>(7)</sup>	6.36:1.0	6.36:1.0	6.51:1.0	7.13:1.0	7.19:1.0	9.05:1.0
Profit Margin <sup>(8)</sup>	23%	23%	23%	22%	21%	26%
Return on Assets <sup>(9)</sup>	9%	9%	7%	9%	9%	14%
Return on Equity(10)	26%	26%	20%	24%	25%	41%
EBITDA Margin <sup>(11)</sup>	49%	49%	48%	47%	54%	55%

(1) Pro-forma ratios are measured based on September 30, 2013 financial statements adjusted by the anticipated proceeds from the issuance of the bonds of Php15 billion and the use of proceeds of Php9,415 million for the settlement of capital expenditure and Php5,585 million for the settlement of debt, wherein the net impact were increase in total assets and total debt by Php9,415 million.

<sup>10</sup> Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)
 <sup>20</sup> Current ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.
 <sup>40</sup> Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.
 <sup>40</sup> Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term

<sup>(a)</sup> Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.
 <sup>(a)</sup> Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) divided by EBITDA for the 12 months average period.
 <sup>(a)</sup> Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) divided by EBITDA for the 12 months average period.
 <sup>(a)</sup> Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.
 <sup>(a)</sup> Interest coverage ratio is measured by EBIT, or earnings before financing costs and provision for (benefit from) income tax for the 12 months average period, divided by the second divided divided by the second divided divided

<sup>(a)</sup> Interest coverage ratio is measured by conf, or earlings before infancing costs and provision for benefit from income tax for the 12 months average period.
 <sup>(a)</sup> Profit margin is derived by dividing net income for the period with total revenues for the period.
 <sup>(a)</sup> Return on assets is measured as 12 months average net income for the period divided by average total assets.
 <sup>(a)</sup> Return on Equity is measured as 12 months average net income for the period divided by average total equity attributable to equity holders of PLDT.

<sup>(1)</sup> EBITDA margin for the period is measured as EBITDA divided by service revenues for the period. EBITDA for the period is measured as net income from continuing operations for the period excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) for the period.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

# OVERVIEW

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into business units based on our products and services and have three reportable operating segments which serve as bases for management's decision to allocate resources and evaluate operating performance:

- Wireless wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Digitel Mobile Philippines, Inc., or DMPI, which owns the Sun Cellular business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Chikka, and its subsidiaries, or Chikka Group, our wireless content operators; and 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 and Digitel, all of which together account for approximately 12% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IPbased solutions and multimedia content delivery provided by ePLDT, IPCDSI, AGS, and its subsidiaries, or AGS Group, and netGames, Inc.; and bills printing and other VAS-related services provided by ePDS, Inc., or ePDS; and
- Others Philippine Global Investment Holdings, Inc., PLDT Global Investments Corporation and PCEV, our investment companies.

# PERFORMANCE INDICATORS

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

# EBITDA

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

#### Core Income

Core income for the period is measured as net income attributable to equity holders of PLDT (net income less net income attributable to noncontrolling interests), excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net (excluding hedge costs), asset impairment on noncurrent assets, other non-recurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. The core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis of determining the level of dividend payouts to shareholders and basis of granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with PFRS as an indicator of our performance. Unlike income before income tax, core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such 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 our EBITDA and our core income to assess our operating performance; a reconciliation of our consolidated EBITDA and our consolidated core income to our consolidated net income for the nine months ended September 30, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010 is set forth below.

The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the nine months ended September 30, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010:

	September 30,		December 31,		
	2013	2012 <sup>(1 and 2)</sup>	2012 <sup>(2)</sup>	2011 <sup>(1,2 and 3)</sup>	2010 <sup>(1 and 2</sup>
	(in millions)				
EBITDA from continuing operations	Php59,550	Php57,205	75,388	78,225	82,049
Add (deduct) adjustments to continuing operations:					
Other income	2,006	4,712	5,813	2,626	1,929
Equity share in net earnings of associates and joint ventures	1,903	1,440	1,538	2,035	1,408
Interest income	680	1,008	1,354	1,357	1,180
Gains (losses) on derivative financial instruments – net	492	(1,560)	(2,009)	201	(1,741
Asset impairment	-	_	(2,896)	(8,514)	(478
Amortization of intangible assets	(736)	(1,019)	(921)	(117)	(163
Retroactive effect of adoption of Revised PAS 19(2)	(1,269)	-	1,287	-	-
Foreign exchange gains (losses) – net	(2,004)	2,424	3,282	(735)	1,850
Financing costs - net	(5,245)	(4,985)	(6,876)	(6,454)	(6,530
Provision for income tax	(6,271)	(8,272)	(8,050)	(10,734)	(13,309
Depreciation and amortization	(22, 180)	(22,957)	(32,354)	(27,539)	(25,881
Total adjustments	(32,624)	(29,209)	(39,832)	(47,874)	(41,735
Net income from continuing operations	26.926	27.996	35.556	30.351	40.314
Net income from discontinued operations	2,069	363	543	867	(489
Consolidated net income	Php28,995	Php28,359	36,099	31,218	39,825

(1) As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes

Accounting Policies and Disclosures to the accompanying unaudited interim consolidated financial statements for further discussion.
 As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes

in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.
 Includes the Digitel Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

	Septen	nber 30,		December 31,	
-	2013	2012 <sup>(1)</sup>	2012 <sup>(2)</sup>	2011 <sup>(1,2 and 3)</sup>	2010 <sup>(1 and 2</sup>
			(in millions)		
Core income from continuing operations	Php28,885	Php27,332	36,356	37,827	41,056
Core income from discontinued operations	(99)	358	551	789	538
Consolidated core income	28,786	27,690	36,907	38,616	41,594
Add (deduct) adjustments to continuing operations:					
Foreign exchange gains (losses) – net	(2,004)	2,424	3,282	(741)	1,862
Gains (losses) on derivative financial instruments - net, excluding hedge					
cost	719	(1,311)	(1,689)	564	(1,307
Core income adjustment on equity share in net earnings (losses) of					
associates and joint ventures	32	(90)	(91)	(476)	(699
Net income (loss) attributable to noncontrolling interests	41	(25)	(49)	(60)	42
Asset impairment on noncurrent assets	-	_	(2,896)	(8,514)	(474

(1, 269)

(1.959)

2,168

26,926

2,069

522

1.287

(644)

(800)

35,556

36,099

543

(8)

(334)

664

27,996

Php28.359

363

5

1,608

(7.476)

30,351

31,218

867

143

78

(166)

(742)

(1,027)

40,314

(489)

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the 00 0010

Php28,995 As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 - Summary of Significant Accounting Policies - Discontinued Operations and Changes

As adjusted to reflect the adjustments of the birO segment. See Note 2 - Summary of objinitization and Charges in Accounting Policies and Disclosures to the accompanying unaudited interim consolidated financial statements for further discussion. As adjusted to reflect the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Includes the Digitel Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

## **RESULTS OF OPERATIONS**

Adjustment to discontinued operations

Net income from continuing operations

Net income from discontinued operations

Others

Total adjustments

Consolidated net income

Retroactive effect of adoption of Revised PAS 19(2)

Net tax effect of aforementioned adjustments

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income/segment profit, EBITDA, EBITDA margin and core income for the nine months ended September 30, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010. In each of the nine months ended September 30, 2013 and 2012, as well as the years ended December 31, 2012, 2011 and 2010, we generated a majority of our revenues from our operations within the Philippines.

	Wireless	Fixed Line	Others (in millions)	Inter-segment Transactions	Consolidated
			(011110013)		
For the nine months ended September 30, 2013 Revenues	Php88,232	Php47,180	Php-	(Php10,827)	Php124,585
Expenses	60,598	39,892	Php= 4	(11,274)	89,220
Other income (expenses)	(3,686)	(1,076)	2,895	(301)	(2,168
Income before income tax	23,948	6,212	2,891	146	33,197
Provision for (benefit from) income tax	6,277	(81)	75	-	6,271
Net income/Segment profit	17,671	6,293	2,816	146	28,995
Continuing operations	17,671	6,293	2,816	146	26,926
Discontinued operations	-	-	-	-	2,069
EBITDA from continuing operations	41,152	17,955	(4)	447	59,550
EBITDA margin <sup>(1)</sup>	48%	39%	-	(4%)	49%
Core income Continuing operations	19,236 19,236	7,005 7,005	2,498 2,498	146 146	28,786 28,885
Discontinued operations	-	-	2,430	-	(99
For the nine months ended September 30, $2012^{(2 \text{ and } 3)}$					
Revenues	86,337	44,831	-	(9,805)	121,363
Expenses	58,654	39,799	15	(10,334)	88,134
Other income (expenses)	671	(1,581)	4,159	(210)	3,039
Income before income tax	28,354	3,451	4,144	319	36,268
Provision for income tax	7,835	434	3	-	8,272
Net income/Segment profit	20,519	3,017	4,141	319	28,359
Continuing operations Discontinued operations	20,519	3,017	4,141	319	27,996 363
EBITDA from continuing operations	41.978	14,713	(15)	529	57,205
EBITDA margin <sup>(1)</sup>	50%	33%	(10)	(4%)	48%
Core income	19,298	3,484	4,231	319	27,690
Continuing operations	19,298	3,484	4,231	319	27,332
Discontinued operations	-	-	-	-	358
For the year ended December 31, 2012 <sup>(3)</sup>					
Revenues	115,932	60,246	-	(12,694)	163,484
Expenses	83,717	52,776	18	(13,531)	122,980
Other income (expenses)	893 33,108	(1,781)	4,358	(368)	3,102 43,606
Income before income tax Provision for income tax	8,094	5,689 (51)	4,340 7	469	43,000
Net income/Segment profit	25,014	5,740	4,333	469	36,099
Continuing operations	25,014	5,740	4,333	469	35,556
Discontinued operations		-	-	-	543
EBITDA from continuing operations	54,480	20,089	(18)	837	75,388
EBITDA margin <sup>(1)</sup>	48%	34%	-	(6%)	47%
Core income	25,694	5,769	4,424	469	36,907
Continuing operations	25,694	5,769	4,424	469	36,356
Discontinued operations	-	-	-	-	551
For the year ended December 31, 2011 <sup>(2, 3 and 4)</sup> Revenues	100 500	50.000		(10.040)	140 470
Revenues Expenses	103,538 71,009	58,290 49,174	11	(13,349) (13,770)	148,479 106,424
Expenses Other income (expenses)	(1,734)	(966)	1,998	(13,770) (268)	(970
Income before income tax	30,795	8,150	1,987	153	41,085
Provision for income tax	8,429	2,303	2	-	10,734
Net income/Segment profit	22,366	5,847	1,985	153	31,218
Continuing operations	22,366	5,847	1,985	153	30,35
Discontinued operations	-	-	-	-	867
EBITDA from continuing operations	55,433	22,382	(11)	421	78,225
EBITDA margin <sup>(1)</sup>	54%	39%	-	(5%)	54%
Core income Continuing operations	29,903 29,903	5,310 5,310	2,461 2,461	153 153	38,616 37,821
Discontinued operations	29,903		2,401	-	789
For the year ended December 31, $2010^{(2 \text{ and } 3)}$					
Revenues	105,381	58,905	-	13,472	150,814
Expenses	59,773	49,545	19	14,050	95,287
	(177)	(2,743)	1,371	(355)	(1,904
Other income (expenses)	45,431	6,617	1,352	223	53,623
Income before income tax		1,897	1	-	13,309
Income before income tax Provision for income tax	11,411		1 051	223	39,825
ncome before income tax Provision for income tax Net income/Segment profit	34,020	4,720	1,351		
ncome before income tax Provision for income tax Vet income/Segment profit Continuing operations			1,351	223	40,314
Income before income tax Provision for income tax Net income/Segment profit Continuing operations Discontinued operations	34,020 34,020 -	4,720 4,720 -	1,351 -	223	40,314 (489
ncome before income tax Provision for income tax Net income/Segment profit Continuing operations Discontinued operations BITDA from continuing operations	34,020 34,020 - 58,998	4,720 4,720 		223 - 578	40,314 (489 82,049
Income before income tax Provision for income tax Net income/Segment profit Continuing operations Discontinued operations EBITDA from continuing operations EBITDA margin <sup>(1)</sup>	34,020 34,020 - 58,998 57%	4,720 4,720 - 22,492 39%	1,351 _ (19) _	223 - 578 (2%)	40,314 (489 82,049 55%
ncome before income tax Provision for income tax Net income/Segment profit Continuing operations Discontinued operations BITDA from continuing operations	34,020 34,020 - 58,998	4,720 4,720 	1,351 -	223 - 578	40,314 (489 82,049

Enscontinued operations
 - - - - - - - - - - - 538

 EBITDA margin for the period is measured as EBITDA for continuing operations divided by service revenues.
 Set State to reflect the discontinued operations of the BPO, segment. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures and Note 3 - Management's Use of Accounting Judgments, Estimates and Assumptions - Assets Held-for-Sale and Discontinued Operations to the accompanying consolidated financial statements for a further discussion of the classification of the BPO segment as an asset held-for-sale.
 As adjusted to reflect the adjustments on the application of the Revised PAS 19 - Employee Benefits and certain presentation adjustments to conform with the current presentation of our business segments. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.
 Includes the Digitel Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011.

In the following discussion and analysis of our financial condition and results of operations for financial year 2012 compared to 2011, our results of operations for 2012 consolidate the results of operations of the Digitel Group (including DMPI) for the full year in 2012 while the results of operations for 2011 consolidate the results of Digitel's operations only from October 26, 2011 to December 31, 2011. Therefore, in the following section, references to increase in contribution from Digitel or DMPI in 2012 for a particular line item, such as revenues or expenses, should be read to describe the result of the inclusion of Digitel's or DMPI's results of operations in our consolidated results of operations for the full year in 2012 as compared to the more limited period in 2011 and does not necessarily reflect an actual increase in the historical amount of such line item by Digitel or DMPI in 2012 from 2011.

## Nine Months Ended September 30, 2013 and 2012

#### On a Consolidated Basis

## Revenues

We reported consolidated revenues of Php124,585 million in the first nine months of 2013, an increase of Php3,222 million, or 3%, as compared with Php121,363 million in the same period in 2012, primarily due to higher revenues from data and other network, and miscellaneous services from our fixed line business, and higher cellular and broadband revenues from our wireless business, partially offset by lower revenues from national long distance, local exchange and international long distance services from our fixed line business, and satellite and other services from our wireless business.

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

|                            |            |               |                     |     | Chang    | е  |  |  |  |
|----------------------------|------------|---------------|---------------------|-----|----------|----|--|--|--|
|                            | 2013       | %             | 2012 <sup>(1)</sup> | %   | Amount   | %  |  |  |  |
|                            |            | (in millions) |                     |     |          |    |  |  |  |
| Wireless                   | Php88,232  | 71            | Php86,337           | 71  | Php1,895 | 2  |  |  |  |
| Fixed line                 | 47,180     | 38            | 44,831              | 37  | 2,349    | 5  |  |  |  |
| Inter-segment transactions | (10,827)   | (9)           | (9,805)             | (8) | (1,022)  | 10 |  |  |  |
| Consolidated               | Php124,585 | 100           | Php121,363          | 100 | Php3,222 | 3  |  |  |  |

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

## Expenses

Consolidated expenses increased by Php1,086 million, or 1%, to Php89,220 million in the first nine months of 2013 from Php88,134 million in the same period in 2012, as a result of higher expenses related to cost of sales, professional and other contracted services, asset impairment and communication, training and travel, partially offset by lower expenses related to depreciation and amortization, interconnection costs, amortization of intangible assets, selling and promotions, taxes and licenses, rent, and compensation and employee benefits, including the retroactive effect of the application of the Revised PAS 19 in our manpower rightsizing program, or MRP, costs of Php1,269 million in the first nine months of 2013.

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

|                            | 2013      | %             | 2012 <sup>(1)</sup> | %    | Amount   | %    |  |  |  |  |
|----------------------------|-----------|---------------|---------------------|------|----------|------|--|--|--|--|
|                            |           | (in millions) |                     |      |          |      |  |  |  |  |
| Wireless                   | Php60,598 | 68            | Php58,654           | 67   | Php1,944 | 3    |  |  |  |  |
| Fixed line                 | 39,892    | 45            | 39,799              | 45   | 93       | -    |  |  |  |  |
| Others                     | 4         | -             | 15                  | -    | (11)     | (73) |  |  |  |  |
| Inter-segment transactions | (11,274)  | (13)          | (10,334)            | (12) | (940)    | 9    |  |  |  |  |
| Consolidated               | Php89,220 | 100           | Php88,134           | 100  | Php1,086 | 1    |  |  |  |  |

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

## Other Income (Expenses)

Consolidated other expenses amounted to Php2,168 million in the first nine months of 2013, a change of Php5.207 million as against other income of Php3,039 million in the same period in 2012, primarily due to the combined effects of the following: (i) foreign exchange losses of Php2,004 million in the first nine months of 2013 as against foreign exchange gains of Php2,424 million in the same period in 2012 mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the effect of the depreciation of the Philippine peso relative to the U.S. dollar to Php43.54 as at September 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php41.74 as at September 30, 2012 from Php43.92 as at December 31, 2011; (ii) a decrease in other income by Php2,706 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon Electric Asset Holdings, Inc., or Beacon, of Php2,012 million in the first nine months of 2012 and lower dividend income by Php292 million, partially offset by a gain on insurance claims by Php193 million in the same period in 2013; (iii) lower interest income by Php328 million due to lower weighted average peso interest rate and lower weighted average level of dollar and peso investments, effect of lower weighted average exchange rate of the Philippine peso relative to the U.S. dollar, and shorter average tenor of dollar placements, partly offset by higher dollar interest rates and longer average tenors of Philippine peso placements; (iv) an increase in net financing costs by Php260 million mainly due to higher amortization of debt discount, lower capitalized interest and an increase in financing charges, partially offset by lower outstanding long-term debts by our fixed line and wireless businesses, lower interest on loans and other related items on account of lower interest rates and lower weighted average exchange rate of the Philippine peso relative to the U.S. dollar; (v) an increase in equity share in net earnings of associates and joint ventures by Php463 million; and (vi) net gains on derivative financial instruments of Php492 million in the first nine months of 2013 as against net losses on derivative financial instruments of Php1,560 million in the same period in 2012 due to the depreciation of the Philippine peso, maturity of the 2012 hedges and wider dollar and peso interest rate differentials in the first nine months of 2013.

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

|                            |            |               |          |      | Chang      | je    |  |  |  |
|----------------------------|------------|---------------|----------|------|------------|-------|--|--|--|
|                            | 2013       | %             | 201 2(1) | %    | Amount     | %     |  |  |  |
|                            |            | (in millions) |          |      |            |       |  |  |  |
| Wireless                   | (Php3,686) | 170           | Php671   | 22   | (Php4,357) | (649) |  |  |  |
| Fixed line                 | (1,076)    | 50            | (1,581)  | (52) | 505        | (32)  |  |  |  |
| Others                     | 2,895      | (134)         | 4,159    | 137  | (1,264)    | (30)  |  |  |  |
| Inter-segment transactions | (301)      | 14            | (210)    | (7)  | (91)       | 43    |  |  |  |
| Consolidated               | (Php2,168) | 100           | Php3,039 | 100  | (Php5,207) | (171) |  |  |  |

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

## Net Income

Consolidated net income increased by Php636 million, or 2%, to Php28,995 million in the first nine months of 2013, from Php28,359 million in the same period in 2012. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated revenues by Php3,222 million; (ii) higher income from discontinued operations of Php1,706 million mainly due to the gain on disposal of our BPO business; (iii) a decrease in consolidated provision for income tax by Php2,001 million, which was mainly due to lower taxable income of our wireless and other businesses; (iv) an increase in consolidated expenses by Php1,086 million; and (v) an increase in consolidated other expense – net by Php5,207 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php133.81 in the first nine months of 2013 from consolidated basic and diluted EPS of Php131.20 in the same period in 2012. Our weighted average number of outstanding common shares was approximately 216.06 million in each of the nine months ended September 30, 2013 and 2012.

| The following table shows the breakdown of our consolidated net income by business segment for the nine | months |
|---|--------|
| ended September 30, 2013 and 2012:  |        |

|                            |           |               |                     |     | Chang      | je   |  |  |  |  |
|----------------------------|-----------|---------------|---------------------|-----|------------|------|--|--|--|--|
|                            | 2013      | %             | 2012 <sup>(1)</sup> | %   | Amount     | %    |  |  |  |  |
|                            |           | (in millions) |                     |     |            |      |  |  |  |  |
| Wireless                   | Php17,671 | 61            | Php20,519           | 72  | (Php2,848) | (14) |  |  |  |  |
| Fixed line                 | 6,293     | 22            | 3,017               | 11  | 3,276      | 109  |  |  |  |  |
| Others                     | 2,816     | 10            | 4,141               | 15  | (1,325)    | (32) |  |  |  |  |
| Inter-segment transactions | 146       | -             | 319                 | 1   | (173)      | (54) |  |  |  |  |
| Continuing operations      | 26,926    | 93            | 27,996              | 99  | (1,070)    | (4)  |  |  |  |  |
| Discontinued operations    | 2,069     | 7             | 363                 | 1   | 1,706      | 470  |  |  |  |  |
| Consolidated               | Php28,995 | 100           | Php28,359           | 100 | Php636     | 2    |  |  |  |  |

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

## EBITDA

Our consolidated EBITDA from continuing operations, amounted to Php59,550 million in the first nine months of 2013, an increase of Php2,345 million, or 4%, as compared with Php57,205 million in the same period in 2012, primarily due to higher consolidated revenues, lower operating expenses related to compensation and employee benefits, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php1,269 million in the first nine months of 2013, lower selling and promotions expenses, and interconnection costs, partially offset by higher operating expenses driven by cost of sales, professional and other contracted services, asset impairment and communication, training and travel.

The following table shows the breakdown of our consolidated EBITDA from continuing operations by business segment for the nine months ended September 30, 2013 and 2012:

|                            |               |     |                     |     | Chan     | ge   |  |  |  |
|----------------------------|---------------|-----|---------------------|-----|----------|------|--|--|--|
|                            | 2013          | %   | 2012 <sup>(1)</sup> | %   | Amount   | %    |  |  |  |
|                            | (in millions) |     |                     |     |          |      |  |  |  |
| Wireless                   | Php41,152     | 69  | Php41,978           | 73  | (Php826) | (2)  |  |  |  |
| Fixed line                 | 17,955        | 30  | 14,713              | 26  | 3,242    | 22   |  |  |  |
| Others                     | (4)           | -   | (15)                | -   | 11       | (73) |  |  |  |
| Inter-segment transactions | 447           | 1   | 529                 | 1   | (82)     | (16) |  |  |  |
| Continuing operations      | Php59,550     | 100 | Php57,205           | 100 | Php2,345 | 4    |  |  |  |

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

## Core Income

Our consolidated core income, including core income from discontinued operations, amounted to Php28,786 million in the first nine months of 2013, an increase of Php1,096 million, or 4%, as compared with Php27,690 million in the same period in 2012, primarily due to an increase in consolidated revenues and lower provision for income tax, partially offset by an increase in consolidated expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php1,269 million in the first nine months of 2013. Our consolidated basic and diluted core EPS, including basic and diluted core EPS from discontinued operations, increased to Php133.03 in the first nine months of 2013 from Php127.99 in the same period in 2012.

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

|                            |           |     |                     |      | Chan     | ge    |
|----------------------------|-----------|-----|---------------------|------|----------|-------|
|                            | 2013      | %   | 2012 <sup>(1)</sup> | %    | Amount   | %     |
|                            |           |     | (in millio          | ons) |          |       |
| Wireless                   | Php19,236 | 67  | Php19,298           | 70   | (Php62)  | _     |
| Fixed line                 | 7,005     | 24  | 3,484               | 13   | 3,521    | 101   |
| Others                     | 2,498     | 9   | 4,231               | 15   | (1,733)  | (41)  |
| Inter-segment transactions | 146       | 1   | 319                 | 1    | (173)    | (54)  |
| Continuing operations      | 28,885    | 101 | 27,332              | 99   | 1,553    | 6     |
| Discontinued operations    | (99)      | (1) | 358                 | 1    | (457)    | (128) |
| Consolidated               | Php28,786 | 100 | Php27,690           | 100  | Php1,096 | 4     |

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

## On a Business Segment Basis

## Wireless

#### Revenues

We generated revenues from our wireless business of Php88,232 million in the first nine months of 2013, an increase of Php1,895 million, or 2%, from Php86,337 million in the same period in 2012.

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

|   |           |     |                     |     | Increase (De | ecrease) |
|---|-----------|-----|---------------------|-----|--------------|----------|
|   | 2013      | %   | 2012 <sup>(1)</sup> | %   | Amount       | %        |
|   |           |     | (in millions        | 5)  |              |          |
| Service Revenues:   |           |     |                     |     |              |          |
| Cellular  | Php78,278 | 89  | Php77,088           | 89  | 1,190        | 2        |
| Wireless broadband, satellite and others                    | •         |     |                     |     |              |          |
| Wireless broadband  | 7,073     | 8   | 6,384               | 7   | 689          | 11       |
| Satellite and others  | 1,029     | 1   | 1,194               | 2   | (165)        | (14)     |
|   | 86,380    | 98  | 84,666              | 98  | 1,714        | 2        |
| Non-Service Revenues:                                       |           |     |                     |     |              |          |
| Sale of cellular handsets, cellular SIM-packs and broadband |           |     |                     |     |              |          |
| data modems   | 1,852     | 2   | 1,671               | 2   | 181          | 11       |
| Total Wireless Revenues                                     | Php88,232 | 100 | Php86,337           | 100 | Php1,895     | 2        |

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

#### Service Revenues

Our wireless service revenues in the first nine months of 2013, increased by Php1,714 million, or 2%, to Php86,380 million as compared with Php84,666 million in the same period in 2012, mainly as a result of higher revenues from our cellular and wireless broadband services, partially offset by lower revenues from our satellite and other services. The increase in our cellular revenues was mainly due to higher domestic voice and internet-based VAS revenues, partially offset by a decrease in text messaging revenues, international voice and other VAS revenues. The increase in our wireless broadband revenues was mainly due to a 5% growth in our broadband subscriber base. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php42.06 for the nine months ended September 30, 2013 from Php42.56 for the nine months ended September 30, 2012. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular average revenue per unit/s, or ARPUs, for the first nine months of 2013 were lower as compared with the same period in 2012. As a percentage of our total wireless revenues, service revenues accounted for 98% in each of the first nine months of 2013 and 2012.

## **Cellular Service**

Our cellular service revenues in the first nine months of 2013 amounted to Php78,278 million, an increase of Php1,190 million, or 2%, from Php77,088 million in the same period in 2012. Cellular service revenues accounted for 91% of our wireless service revenues in each of the first nine months of 2013 and 2012.

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

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

|                           |           |                     | Increase (Dec | rease) |
|---------------------------|-----------|---------------------|---------------|--------|
|                           | 2013      | 2012 <sup>(1)</sup> | Amount        | %      |
|                           |           | (in million         | s)            |        |
| Cellular service revenues | Php78,278 | Php77,088           | Php1,190      | 2      |
| By service type           | 76,584    | 75,139              | 1,445         | 2      |
| Prepaid                   | 62,637    | 62,985              | (348)         | (1)    |
| Postpaid                  | 13,947    | 12,154              | 1,793         | 15     |
| By component              | 76,584    | 75,139              | 1,445         | 2      |
| Voice                     | 37,789    | 36,875              | 914           | 2      |
| Data                      | 38,795    | 38,264              | 531           | 1      |
| Others <sup>(2)</sup>     | 1,694     | 1,949               | (255)         | (13)   |

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

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

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

|   |            |            |             | rease)   |
|---|------------|------------|-------------|----------|
|   | 2013       | 2012       | Amount      | %        |
| Cellular subscriber base                    | 72,498,270 | 68,599,733 | 3.898.537   | 6        |
| Prepaid                                     | 70.198.270 | 66.415.877 | 3,782,393   | 6        |
| Smart                                       | 23,867,643 | 25,377,864 | (1,510,221) | (6)      |
| Talk 'N Text                                | 31,922,834 | 26,524,760 | 5,398,074   | 20       |
| Sun Cellular                                | 14,407,793 | 14,513,253 | (105,460)   | (1)      |
| Postpaid                                    | 2.300.000  | 2,183,856  | 116,144     | 5        |
| Sun Cellular                                | 1,433,840  | 1,524,946  | (91,106)    | (6)      |
| Smart                                       | 866,160    | 658,910    | 207,250     | 31       |
| Systemwide traffic volumes (in millions)(1) |            |            |             |          |
| Calls (in minutes)                          | 41.302     | 39.788     | 1.514       | 4        |
| Domestic                                    | 38.616     | 39,700     | 1,314       | 4        |
| Inbound                                     | 889        | 910        | (21)        | (2)      |
| Outbound                                    | 37.727     | 36.363     | 1,364       | (2)<br>4 |
| International                               | 2.686      | 2,515      | 171         | 7        |
| Inbound                                     | 2,000      | 2,216      | (10)        | -        |
| Outbound                                    | 480        | 2,210      | 181         | 61       |
|   | 000 440    | 001 770    | 10.040      | 0        |
| SMS/Data count (in hits)(in millions) (1)   | 392,418    | 381,770    | 10,648      | 3        |
| Text messages                               | 381,221    | 374,454    | 6,767       | 2        |
| Domestic                                    | 380,567    | 373,825    | 6,742       | 2        |
| Bucket-Priced/Unlimited                     | 355,036    | 350,668    | 4,368       | 1        |
| Standard                                    | 25,531     | 23,157     | 2,374       | 10       |
| International                               | 654        | 629        | 25          | 4        |
| Value-Added Services                        | 11,129     | 7,276      | 3,853       | 53       |
| Financial Services                          | 68         | 40         | 28          | 70       |

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

Revenues generated from our prepaid cellular services amounted to Php62,637 million in the first nine months of 2013, a decrease of Php348 million, or 1%, as compared with Php62,985 million in the same period in 2012. Prepaid cellular service revenues accounted for 82% and 84% of cellular voice and data revenues in the first nine months of 2013 and 2012, respectively. Revenues generated from postpaid cellular service amounted to Php13,947 million in the first nine months of 2013, an increase of Php1,793 million, or 15%, as compared with Php12,154 million earned in the same period in 2012, and which accounted for 18% and 16% of cellular voice and data revenues in the first nine months of 2013 and 2012, respectively. The decrease in revenues from our prepaid cellular services was primarily due to a decline in our revenues from outbound domestic standard SMS and international SMS, inbound and outbound international calls, and MMS-based VAS, partially offset by an increase in revenues from domestic bucket-priced/unlimited SMS, internet/SMS-based VAS and financial services. The increase in our postpaid cellular service revenues was primarily due to a higher subscriber base.

## Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php914 million, or 2%, to Php37,789 million in the first nine months of 2013 from Php36,875 million in the same period in 2012, primarily due to higher cellular domestic call revenues, partially offset by lower cellular international call revenues. Cellular voice services accounted for 48% of our cellular service revenues in each of the first nine months of 2013 and 2012.

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

|                 |           |                     | Increase (De | crease) |
|-----------------|-----------|---------------------|--------------|---------|
|                 | 2013      | 2012 <sup>(1)</sup> | Amount       | %       |
|                 |           | (in millions)       |              |         |
| Voice services: |           |                     |              |         |
| Domestic        |           |                     |              |         |
| Inbound         | Php3,504  | Php3,467            | Php37        | 1       |
| Outbound        | 22,419    | 21,102              | 1,317        | 6       |
|                 | 25,923    | 24,569              | 1,354        | 6       |
| International   |           |                     |              |         |
| Inbound         | 10,222    | 10,369              | (147)        | (1)     |
| Outbound        | 1,644     | 1,937               | (293)        | (15)    |
|                 | 11,866    | 12,306              | (440)        | (4)     |
| Total           | Php37,789 | Php36,875           | Php914       | 2       |

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

Domestic voice service revenues increased by Php1,354 million, or 6%, to Php25,923 million in the first nine months of 2013 from Php24,569 million in the same period in 2012, primarily due to an increase in domestic outbound and inbound voice service revenues by Php1,317 million and Php37 million, respectively.

Revenues from domestic outbound voice service increased by Php1,317 million, or 6%, to Php22,419 million in the first nine months of 2013 from Php21,102 million in the same period in 2012 mainly due to increased traffic on unlimited calls and improved yield on bucket offers. Domestic outbound call volume of 37,727 million minutes increased by 1,364 million minutes, or 4%, from 36,363 million minutes in the same period in 2012.

Revenues from our domestic inbound voice service increased by Php37 million, or 1%, to Php3,504 million in the first nine months of 2013 from Php3,467 million in the same period in 2012 primarily due to an increase in traffic originating from other domestic mobile carriers. Domestic inbound call volumes of 889 million minutes in the first nine months of 2013, decreased by 21 million minutes, or 2%, from 910 million minutes in the same period in 2012 primarily due to lower traffic from fixed line calls.

International voice service revenues decreased by Php440 million, or 4%, to Php11,866 million in the first nine months of 2013 from Php12,306 million in the same period in 2012 primarily due to lower international inbound voice service revenues by Php147 million, or 1%, to Php10,222 million in the first nine months of 2013 from Php10,369 million in the same period in 2012 and the decline in international outbound voice service revenues by Php293 million, or 15%, to Php1,644 million in the first nine months of 2013 from Php1,937 million in the same period in 2012. Average international termination rates also decreased in the first nine months of 2013. The decrease in international voice service revenues was also due to the unfavorable effect on dollar-linked revenues of lower weighted average exchange rate of Php42.06 for the nine months ended September 30, 2013 from Php42.56 for the nine months ended September 30, 2012. International inbound and outbound calls totaled 2,686 million minutes, an increase of 171 million minutes, or 7%, from 2,515 million minutes in the same period in 2012.

#### Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php531 million, or 1%, to Php38,795 million in the first nine months of 2013 from Php38,264 million in the same period in 2012 primarily due to higher internet/SMS-based VAS, partially offset by lower text messaging revenues, MMS-based VAS and *Pasa Load/Give-a-Load* revenues. Cellular data services accounted for 50% in each of our cellular service revenues in the first nine months of 2013 and 2012.

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

|                                      |           |                            | Increase (Dec | rease) |
|--------------------------------------|-----------|----------------------------|---------------|--------|
|                                      | 2013      | <b>2012</b> <sup>(1)</sup> | Amount        | %      |
|                                      |           | (in million                | s)            |        |
| Text messaging                       |           |                            |               |        |
| Domestic                             | Php31,522 | Php31,906                  | (Php384)      | (1)    |
| Bucket-Priced/Unlimited              | 22,150    | 21,366                     | 784           | 4      |
| Standard                             | 9,372     | 10,540                     | (1,168)       | (11)   |
| International                        | 2,618     | 2,841                      | (223)         | (8)    |
|                                      | 34,140    | 34,747                     | (607)         | (2)    |
| Value-added services                 |           |                            |               |        |
| Mobile internet <sup>(2)</sup>       | 3,388     | 2,182                      | 1,206         | 55     |
| SMS-based <sup>(3)</sup>             | 526       | 459                        | 67            | 15     |
| Pasa Load/Give-a-load <sup>(4)</sup> | 400       | 510                        | (110)         | (22)   |
| MMS-based <sup>(5)</sup>             | 199       | 317                        | (118)         | (37)   |
|                                      | 4,513     | 3,468                      | 1,045         | 30     |
| Financial services                   | 142       | 49                         | 93            | 190    |
| Total                                | Php38,795 | Php38,264                  | Php531        | 1      |

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

(2) Includes revenues from web-based services, net of allocated discounts and content provider costs.

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

(4) Includes revenues from Pasa Load and Dial\*SOS, net of allocated discounts. Pasa Load/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 point-to-point multimedia messaging system, or MMS, and content download services, such as ringtone, logo or music downloads, net of allocated discounts and content provider costs.

Text messaging-related services contributed revenues of Php34,140 million in the first nine months of 2013, a decrease of Php607 million, or 2%, as compared with Php34,747 million in the same period in 2012, and accounted for 88% and 91% of our total cellular data service revenues in the first nine months of 2013 and 2012, respectively. The decrease in revenues from text messaging-related services resulted mainly from lower domestic standard and international messaging revenues, partially offset by higher text messaging revenues from the various bucket-priced/unlimited SMS offers. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php22,150 million in the first nine months of 2013, an increase of Php784 million, or 4%, as compared with Php21,366 million in the same period in 2012. Bucket-priced/unlimited text messages increased by 4,368 million, or 1%, to 355,036 million in the first nine months of 2013 from 350,668 million in the same period in 2012.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php1,168 million, or 11%, to Php9,372 million in the first nine months of 2013 from Php10,540 million in the same period in 2012, primarily due to increased preference for unlimited SMS offers. Standard text messages increased by 2,374 million, or 10% to 25,531 million in the first nine months of 2013 from 23,157 million in the same period in 2012, as a result of increased domestic inbound SMS volume, partially offset by the decline in domestic outbound standard SMS volume.

International text messaging revenues amounted to Php2,618 million in the first nine months of 2013, a decrease of Php223 million, or 8%, from Php2,841 million in the same period in 2012 mainly due to the unfavorable effect of lower weighted average exchange rate on international inbound text messaging revenues, partially offset by the higher SMS traffic and effective dollar yield of international inbound SMS.

VAS contributed revenues of Php4,513 million in the first nine months of 2013, an increase of Php1,045 million, or 30%, as compared with Php3,468 million in the same period in 2012, primarily due to an increase in revenues from mobile internet service, which increased by Php1,206 million, or 55%, to Php3,388 million in the first nine months of 2013 from Php2,182 million in the same period in 2012.

## Subscriber Base, ARPU and Churn Rates

As at September 30, 2013, our cellular subscribers totaled 72,498,270, an increase of 3,898,537, or 6%, over the cellular subscriber base of 68,599,733 as at September 30, 2012. Our cellular prepaid subscriber base grew by 3,782,393, or 6%, to 70,198,270 as at September 30, 2013 from 66,415,877 as at September 30, 2012, and our cellular postpaid subscriber base increased by 116,144, or 5%, to 2,300,000 as at September 30, 2013 from 2,183,856 as at September 30, 2012. The increase in subscriber base was primarily due to the growth in *Talk 'N Text* prepaid subscribers by 5,398,074, partially offset by a net decrease in Smart and *Sun Cellular* subscribers by

1,302,971 and 196,566, respectively, primarily due to lower average activations in the first nine months of 2013. Prepaid subscribers accounted for 97% of our total subscriber base as at September 30, 2013 and 2012.

Our net subscriber activations (reductions) for the nine months ended September 30, 2013 and 2012 were as follows:

|           |  | Increase (Decrease)  |  |  |
|-----------|--|--|--|--|
| 2013      | 2012   | Amount   | %  |  |
| 2,586,733 | 4.623.085  | (2.036.352)  | (44)   |  |
|           |  | ( , , ,  | (55)   |  |
| 3,477,781 | 6,057,585  | (2,579,804)  | (43)   |  |
| 302,762   | 1,199,157  | (896,395)  | (75)   |  |
| 45,079    | 280,019  | (234,940)  | (84)   |  |
| 182,680   | 108,162  | 74,518   | 69   |  |
| (137,601) | 171,857  | (309,458)  | (180)  |  |
| 2,631,812 | 4,903,104  | (2,271,292)  | (46)   |  |
|           | 2,586,733<br>(1,193,810)<br>3,477,781<br>302,762<br>45,079<br>182,680<br>(137,601) | 2,586,733 4,623,085<br>(1,193,810) (2,633,657)<br>3,477,781 6,057,585<br>302,762 1,199,157<br>45,079 280,019<br>182,680 108,162<br>(137,601) 171,857 | 2013         2012         Amount           2,586,733         4,623,085         (2,036,352)           (1,193,810)         (2,633,657)         1,439,847           3,477,781         6,057,585         (2,579,804)           302,762         1,199,157         (896,395)           45,079         280,019         (234,940)           182,680         108,162         74,518           (137,601)         171,857         (309,458) |  |

Prepaid and postpaid subscribers reflected net activations of 2,586,733 and 45,079 subscribers, respectively, in the first nine months of 2013 as compared with net activations of 4,623,085 and 280,019, respectively, in the same period in 2012.

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

|              | 2013  | 2012 |
|--------------|-------|------|
|              | (in % | b)   |
| Prepaid      |       |      |
| Smart        | 5.7   | 6.3  |
| Talk 'N Text | 3.8   | 4.3  |
| Sun Cellular | 10.1  | 10.4 |
| Postpaid     |       |      |
| Smart        | 2.6   | 2.7  |
| Sun Cellular | 3.7   | 1.0  |

For Smart Prepaid subscribers, the average monthly churn rate in the first nine months of 2013 and 2012 were 5.7% and 6.3%, respectively, while the average monthly churn rate for Talk 'N Text subscribers were 3.8% and 4.3% in the first nine months of 2013 and 2012, respectively. The average monthly churn rate for Sun Cellular prepaid subscribers were 10.1% and 10.4% in the first nine months of 2013 and 2012, respectively.

The average monthly churn rate for Smart Postpaid subscribers were 2.6% and 2.7% in the first nine months of 2013 and 2012, respectively. The average monthly churn rate for Sun Cellular postpaid subscribers was 3.7% and 1.0% in the first nine months of 2013 and 2012, respectively.

| The following table summarizes our average monthly cellular ARPUs for the nine months ended September 30, 201 | 3 |
|---|---|
| and 2012:   |   |

|              | Gr     | Gross <sup>(1)</sup> |        | Increase (Decrease) |        | et <sup>(2)</sup>   | Increase (Decrease) |      |
|--------------|--------|----------------------|--------|---------------------|--------|---------------------|---------------------|------|
|              | 2013   | 2012 <sup>(3)</sup>  | Amount | %                   | 2013   | 2012 <sup>(3)</sup> | Amount              | %    |
| Prepaid      |        |                      |        |                     |        |                     |                     |      |
| Smart        | Php160 | Php165               | (Php5) | (3)                 | Php141 | Php143              | (Php2)              | (1)  |
| Talk 'N Text | . 96   | 112                  | (16)   | (14)                | . 85   | . 98                | (13)                | (13) |
| Sun Cellular | 66     | 67                   | (1)    | (1)                 | 58     | 57                  | 1                   | 2    |
| Postpaid     |        |                      | ( )    |                     |        |                     |                     |      |
| Smart        | 1,149  | 1,270                | (121)  | (10)                | 1,135  | 1,252               | (117)               | (9)  |
| Sun Cellular | 479    | 394                  | 85     | 22                  | 475    | 391                 | 84                  | 21   |

(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 rearing revenues, by the average number of subscribers in the month, globs of uncertainty and bit excluding inbound rearing revenues, by the average number of subscribers in the month.
 Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound rearing revenues, net of discounts and content provider costs, by the average number of subscribers in the month.
 The September 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business

segments.

|                | _                    | Prepaid            |                      |                    |                      |                             | Postpaid             |                    |                             |                    |
|----------------|----------------------|--------------------|----------------------|--------------------|----------------------|-----------------------------|----------------------|--------------------|-----------------------------|--------------------|
|                | S                    | mart               | Talk                 | Talk 'N Text       |                      | Sun Cellular <sup>(1)</sup> |                      | mart               | Sun Cellular <sup>(1)</sup> |                    |
|                | Gross <sup>(2)</sup> | Net <sup>(3)</sup> | Gross <sup>(2)</sup> | Net <sup>(3)</sup> | Gross <sup>(2)</sup> | Net <sup>(3)</sup>          | Gross <sup>(2)</sup> | Net <sup>(3)</sup> | Gross <sup>(2)</sup>        | Net <sup>(3)</sup> |
| 2013           |                      |                    |                      |                    |                      |                             |                      |                    |                             |                    |
| First Quarter  | 160                  | 141                | 98                   | 87                 | 66                   | 57                          | 1,168                | 1,154              | 458                         | 455                |
| Second Quarter | 160                  | 141                | 98                   | 87                 | 66                   | 58                          | 1,167                | 1,153              | 499                         | 495                |
| Third Quarter  | 161                  | 142                | 92                   | 82                 | 66                   | 60                          | 1,111                | 1,099              | 479                         | 476                |
| 2012(4)        |                      |                    |                      |                    |                      |                             |                      |                    |                             |                    |
| First Quarter  | 170                  | 148                | 116                  | 102                | 68                   | 57                          | 1,292                | 1,269              | 390                         | 388                |
| Second Quarter | 164                  | 143                | 113                  | 100                | 66                   | 57                          | 1,264                | 1,237              | 400                         | 397                |
| Third Quarter  | 162                  | 140                | 107                  | 93                 | 67                   | 58                          | 1,253                | 1,251              | 391                         | 388                |
| Fourth Quarter | 170                  | 149                | 106                  | 93                 | 74                   | 64                          | 1,265                | 1,248              | 393                         | 391                |

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

Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.
 Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

The September 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

## Wireless Broadband, Satellite and Other Services

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

#### Wireless Broadband

Revenues from our wireless broadband services increased by Php689 million, or 11%, to Php7,073 million in the first nine months of 2013 from Php6,384 million in the same period in 2012, primarily due to a 5% growth in broadband subscriber base.

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

|                                |           |           | Increase (Decrease) |      |  |
|--------------------------------|-----------|-----------|---------------------|------|--|
|                                | 2013      | 2012      | Amount              | %    |  |
| Wireless Broadband Subscribers | 2,378,607 | 2,267,430 | 111,177             | 5    |  |
| Prepaid                        | 1,597,186 | 1,515,849 | 81,337              | 5    |  |
| Smart Broadband                | 1,294,152 | 1,210,235 | 83,917              | 7    |  |
| Sun Broadband                  | 303,034   | 305,614   | (2,580)             | (1)  |  |
| Postpaid                       | 781,421   | 751,581   | 29,840              | 4    |  |
| Smart Broadband                | 549,687   | 474,915   | 74,772              | 16   |  |
| Sun Broadband                  | 231,734   | 276,666   | (44,932)            | (16) |  |

*Smart Broadband* and *Sun Broadband Wireless*, SBI's and DMPI's broadband services, respectively, offer a number of wireless broadband services and had a total of 2,378,607 subscribers as at September 30, 2013, a net increase of 111,177 subscribers, or 5%, as compared with 2,267,430 subscribers as at September 30, 2012, primarily due to an increase by 158,689, or 9%, in *Smart Broadband* subscribers, partially offset by a decrease in *Sun Broadband* subscribers by 47,512, or 8%, as at September 30, 2013. Our prepaid wireless broadband subscriber base increased by 81,337 subscribers, or 5%, to 1,597,186 subscribers as at September 30, 2013 from 1,515,849 subscribers as at September 30, 2012, while our postpaid wireless broadband subscribers base increased by 29,840 subscribers, or 4%, to 781,421 subscribers as at September 30, 2013 from 751,581 subscribers as at September 30, 2012.

Smart Broadband offers *myBro*, a fixed wireless broadband service being offered under PLDT's *Home* megabrand. *myBro* fixed wireless broadband service is powered either via a link to Smart's wireless broadband-enabled base stations which allows subscribers to connect to the internet using an outdoor aerial antenna installed in the subscriber's home or via Smart's WiMAX (Worldwide Interoperability for Microwave Access) network. *myBro* revenues increased by Php340 million, or 12%, to Php3,298 million in the first nine months of 2013 from Php2,958 million in the same period in 2012 primarily due to an increase in subscriber base by 37 thousand, or 9%, to 448 thousand as at September 30, 2013 from 411 thousand as at September 30, 2012.

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

*Pocket Wifi* are available in both postpaid and prepaid variants. Smart Broadband also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. *SmartBro LTE* offers the latest broadband technology with speeds of up to 42 Mbps. *SmartBro LTE Plug-It* and *SmartBro LTE Pocket Wifi* are also available in both postpaid and prepaid variants. We also have an additional array of load packages that offer time period-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

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

#### Satellite and Other Services

Revenues from our satellite and other services decreased by Php165 million, or 14%, to Php1,029 million in the first nine months of 2013 from Php1,194 million in the same period in 2012, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS Philippines' subscribers and the effect of lower weighted average exchange rate of Php42.06 for the nine months ended September 30, 2013 from Php42.56 for the nine months ended September 30, 2012 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

## Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php181 million, or 11%, to Php1,852 million in the first nine months of 2013 from Php1,671 million in the same period in 2012, primarily due to increased availments for broadband *Pocket WiFi* and cellular retention packages, partly offset by lower quantity of broadband *Plug-It* modem and cellular handsets/SIMpacks issued for activation.

#### Expenses

Expenses associated with our wireless business amounted to Php60,598 million in the first nine months of 2013, an increase of Php1,944 million, or 3%, from Php58,654 million in the same period in 2012. A significant portion of this increase was attributable to higher expenses related to cost of sales, compensation and employee benefits, professional and other contracted services, asset impairment, rent, and other operating expenses, partially offset by lower depreciation and amortization, amortization of intangible assets, taxes and licenses, and interconnection costs. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 68% in the first nine months of 2013 and 2012, respectively.

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

|  | Increase (Decrease) |     |           |     |            |      |  |  |
|--|---------------------|-----|-----------|-----|------------|------|--|--|
|  | 2013                | %   | 2012(1)   | %   | Amount     | %    |  |  |
|  |                     | ns) |           |     |            |      |  |  |
| Depreciation and amortization              | Php12,246           | 20  | Php13,276 | 23  | (Php1,030) | (8)  |  |  |
| Rent                                       | 7,461               | 13  | 7,253     | 12  | 208        | 3    |  |  |
| Cost of sales                              | 7,369               | 12  | 5,587     | 9   | 1,782      | 32   |  |  |
| Compensation and employee benefits         | 6,750               | 11  | 5,892     | 10  | 858        | 15   |  |  |
| Interconnection costs                      | 6,073               | 10  | 6,222     | 11  | (149)      | (2)  |  |  |
| Repairs and maintenance                    | 5,911               | 10  | 5,987     | 10  | (76)       | (1)  |  |  |
| Selling and promotions                     | 5,447               | 9   | 5,522     | 9   | (75)       | (1)  |  |  |
| Professional and other contracted services | 3,054               | 5   | 2,745     | 5   | 309        | 11   |  |  |
| Taxes and licenses                         | 1,716               | 3   | 1,891     | 3   | (175)      | (9)  |  |  |
| Asset impairment                           | 1,263               | 2   | 1,013     | 2   | 250        | 25   |  |  |
| Communication, training and travel         | 1,134               | 2   | 1,021     | 2   | 113        | 11   |  |  |
| Insurance and security services            | 777                 | 1   | 696       | 1   | 81         | 12   |  |  |
| Amortization of intangible assets          | 735                 | 1   | 1,019     | 2   | (284)      | (28) |  |  |
| Other expenses                             | 662                 | 1   | 530       | 1   | 132        | 25   |  |  |
| Total                                      | Php60,598           | 100 | Php58,654 | 100 | Php1,944   | 3    |  |  |

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

Depreciation and amortization charges decreased by Php1,030 million, or 8%, to Php12,246 million primarily due to a lower depreciable asset base.

Rent expenses increased by Php208 million, or 3%, to Php7,461 million primarily due to an increase in leased circuit charges and office building rental, partially offset by lower site rental charges. In the nine months ended September

30, 2013, we had 9,452 cell sites, 20,657 cellular/mobile broadband base stations and 2,903 fixed wireless broadband base stations, of which approximately 10,000 are 4G-capable broadband stations, as compared with 10,033 cell sites, 18,586 cellular/mobile broadband base stations and 2,811 fixed wireless broadband base stations, of which 4,627 are 4G-capable broadband stations, in the same period in 2012.

Cost of sales increased by Php1,782 million, or 32%, to Php7,369 million primarily due to increased issuances for cellular retention and higher average cost of handsets/SIMpacks issued for activation purposes, complemented by higher average cost for broadband *Pocket WiFi*, partially offset by lower quantity of handsets/SIMpacks issued for activation and decreased issuances for broadband *Plug-lt* modems.

Compensation and employee benefits expenses increased by Php858 million, or 15%, to Php6,750 million primarily due to higher MRP costs as a result of the retroactive adjustment of the application of the Revised PAS 19 of Php537 million in the first nine months of 2013, as well as LTIP costs, and salaries and employee benefits, partially offset by lower provision for pension benefits. Employee headcount decreased to 8,243 as at September 30, 2013 as compared with 8,467 as at September 30, 2012, primarily due to the availment of the MRP by Smart and DMPI employees as at September 30, 2013.

Interconnection costs decreased by Php149 million, or 2%, to Php6,073 million primarily due to a decrease in interconnection charges on international calls and roaming SMS.

Repairs and maintenance expenses decreased by Php76 million, or 1%, to Php5,911 million mainly due to lower site electricity consumption and site facilities maintenance costs, partially offset by higher maintenance costs on IT hardware and software, and cellular and broadband network facilities.

Selling and promotion expenses decreased by Php75 million, or 1%, to Php5,447 million primarily due to lower advertising expenses, partially offset by higher commissions and public relations expenses.

Professional and other contracted service fees increased by Php309 million, or 11%, to Php3,054 million primarily due to an increase in outsourced service costs and call center fees, partly offset by lower consultancy and technical service fees.

Taxes and licenses decreased by Php175 million, or 9%, to Php1,716 million primarily due to lower business-related taxes and license fees.

Asset impairment increased by Php250 million, or 25%, to Php1,263 million primarily due to higher provision for uncollectible receivables, partially offset by lower provision for inventory obsolescence.

Communication, training and travel expenses increased by Php113 million, or 11%, to Php1,134 million primarily due to higher expenses related to mailing and courier, as well as freight and hauling, partially offset by lower travel expenses, fuel consumption costs for vehicles and communication charges.

Insurance and security services increased by Php81 million, or 12%, to Php777 million primarily due to higher office and site security expenses, partly offset by lower insurance and bond premiums.

Amortization of intangible assets decreased by Php284 million, or 28%, to Php735 million primarily due to lower adjusted amortization of intangible assets related to customer list of DMPI.

Other expenses increased by Php132 million, or 25%, to Php662 million primarily due to higher various business and operational-related expenses.

## Other Income (Expenses)

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

|  |            |                     | Change     | je    |  |
|--|------------|---------------------|------------|-------|--|
|  | 2013       | 2012 <sup>(1)</sup> | Amount     | %     |  |
|  |            | (in millions        | s)         |       |  |
| Other Income (Expenses):                                 |            |                     |            |       |  |
| Interest income  | Php282     | Php439              | (Php157)   | (36)  |  |
| Gains (losses) on derivative financial instruments – net | (16)       | (54)                | 38         | (70)  |  |
| Equity share in net losses of associates                 | (67)       | (35)                | (32)       | 91    |  |
| Foreign exchange gains (losses) – net                    | (1,368)    | 1,788               | (3,156)    | (177) |  |
| Financing costs – net                                    | (2,622)    | (1,995)             | (627)      | 31    |  |
| Others   | 105        | 528                 | (423)      | (80)  |  |
| otal   | (Php3,686) | Php671              | (Php4,357) | (649) |  |

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

Our wireless business' other expenses amounted to Php3,686 million in the first nine months of 2013, a change of Php4,357 million as against other income of Php671 million in the same period in 2012, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php1,368 million in the first nine months of 2013 as against net foreign exchange gains of Php1,788 million in the same period in 2012 on account of revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php43.54 as at September 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php41.74 as at September 30, 2012 from Php43.92 as at December 31, 2011; (ii) higher net financing costs by Php627 million primarily due to higher amortization of debt discount, lower capitalized interest and an increase in financing charges, partly offset by lower outstanding debt balance and lower weighted average interest rates on loans; (iii) a decrease in other income by Php423 million mainly due to lower income from consultancy and loss on disposal of fixed assets; (iv) a decrease in interest income by Php157 million mainly due to lower weighted average interest rates, lower principal amounts of dollar and peso placements, and the lower weighted average exchange rate of the Philippine peso to the U.S. dollar, partially offset by higher U.S. dollar interest rates and longer average tenor of Philippine peso placements in the first nine months of 2013; (v) an increase in equity share in net losses of associates by Php32 million; and (vi) lower loss on derivative financial instruments by Php38 million mainly on account of mark-to-market gain on derivatives as a result of the depreciation of the Philippine peso in the first nine months of 2013 as against the appreciation of the Philippine peso in the same period in 2012, maturity of the 2012 hedges and a wider dollar and peso interest rate differentials.

## Provision for Income Tax

Provision for income tax decreased by Php1,558 million, or 20%, to Php6,277 million in the first nine months of 2013 from Php7,835 million in the same period in 2012 primarily due to lower taxable income. The effective tax rates for our wireless business were 26% and 28% in the first nine months of 2013 and 2012, respectively.

## Net Income

As a result of the foregoing, our wireless business' net income decreased by Php2,848 million, or 14%, to Php17,671 million in the first nine months of 2013 from Php20,519 million recorded in the same period in 2012.

## EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php826 million, or 2%, to Php41,152 million in the first nine months of 2013 from Php41,978 million in the same period in 2012.

## Core Income

Our wireless business' core income decreased by Php62 million to Php19,236 million in the first nine months of 2013 from Php19,298 million in the same period in 2012 on account of a decrease in other income and higher wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php537 million in the first nine months of 2013, partially offset by an increase in wireless revenues and a decrease in provision for income tax.

# Fixed Line

# Revenues

Revenues generated from our fixed line business amounted to Php47,180 million in the first nine months of 2013, an increase of Php2,349 million, or 5%, from Php44,831 million in the same period in 2012.

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

|  |               |     |                     |     | Increase (De | crease) |  |  |  |
|--|---------------|-----|---------------------|-----|--------------|---------|--|--|--|
|  | 2013          | %   | 2012 <sup>(1)</sup> | %   | Amount       | %       |  |  |  |
|  | (in millions) |     |                     |     |              |         |  |  |  |
| Service Revenues:                            |               |     |                     |     |              |         |  |  |  |
| Local exchange                               | Php12,194     | 26  | Php12,378           | 28  | (Php184)     | (1)     |  |  |  |
| International long distance                  | 8,448         | 18  | 7,950               | 18  | 498          | 6       |  |  |  |
| National long distance                       | 3,481         | 7   | 3,873               | 9   | (392)        | (10)    |  |  |  |
| Data and other network                       | 20,338        | 43  | 18,553              | 41  | 1,785        | 10      |  |  |  |
| Miscellaneous                                | 1,529         | 3   | 1,427               | 3   | 102          | 7       |  |  |  |
|  | 45,990        | 97  | 44,181              | 99  | 1,809        | 4       |  |  |  |
| Non-Service Revenues:                        |               |     |                     |     |              |         |  |  |  |
| Sale of computers, phone units and SIM cards | 1,190         | 3   | 650                 | 1   | 540          | 83      |  |  |  |
| Total Fixed Line Revenues                    | Php47,180     | 100 | Php44,831           | 100 | Php2,349     | 5       |  |  |  |

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

## Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,809 million, or 4%, to Php45,990 million in the first nine months of 2013 from Php44,181 million in the same period in 2012 due to an increase in the revenue contribution of our data and other network, international long distance and miscellaneous services, partially offset by decreases in national long distance and local exchange services.

#### Local Exchange Service

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

|   |           |                     | Increase (Dec | crease) |
|---|-----------|---------------------|---------------|---------|
|   | 2013      | 2012 <sup>(1)</sup> | Amount        | %       |
| Total local exchange service revenues (in millions) | Php12,194 | Php12,378           | (Php184)      | (1)     |
| Number of fixed line subscribers                    | 2,073,831 | 2,127,188           | (53,357)      | (3)     |
| Postpaid  | 2,015,007 | 2,010,253           | 4,754         | _       |
| Prepaid   | 58,824    | 116,935             | (58,111)      | (50)    |
| Number of fixed line employees                      | 7,151     | 7,811               | (660)         | (8)     |
| Number of fixed line subscribers per employee       | 290       | 272                 | 18            | 7       |

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

Revenues from our local exchange service decreased by Php184 million, or 1%, to Php12,194 million in the first nine months of 2013 from Php12,378 million in the same period in 2012, primarily due to lower weighted average billed lines, lower installation and activation charges, and a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services. The percentage contribution of local exchange revenues to our total fixed line service revenues was 27% and 28% in the first nine months of 2013 and 2012, respectively.

#### International Long Distance Service

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

|  |          |                     | Increase (Dec | crease) |
|--|----------|---------------------|---------------|---------|
|  | 2013     | 2012 <sup>(1)</sup> | Amount        | %       |
| Total international long distance service revenues (in millions)   | Php8,448 | Php7,950            | Php498        | 6       |
| Inbound  | 7,442    | 6,918               | 524           | 8       |
| Outbound   | 1,006    | 1,032               | (26)          | (3)     |
| International call volumes (in million minutes, except call ratio) | 1,639    | 1,570               | 69            | 4       |
| Inbound  | 1,343    | 1,218               | 125           | 10      |
| Outbound   | 296      | 352                 | (56)          | (16)    |
| Inbound-outbound call ratio  | 4.5:1    | 3.5:1               | _             | · –     |

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

Our total international long distance service revenues increased by Php498 million, or 6%, to Php8,448 million in the first nine months of 2013 from Php7,950 million in the same period in 2012, primarily due to the net increase in call volumes and the increase in average collection rates in dollar terms, partially offset by the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.06 in the first nine months of 2013 from Php42.56 in the same period in 2012. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% in each of the first nine months of 2013 and 2012.

Our revenues from inbound international long distance service increased by Php524 million, or 8%, to Php7,442 million in the first nine months of 2013 from Php6,918 million in the same period in 2012 primarily due to the increase in inbound call volumes, partially offset by the decrease in average settlement rate in dollar terms and the unfavorable effect on our inbound revenues of a lower weighted average exchange rate of the Philippine peso to the U.S. dollar.

Our revenues from outbound international long distance service decreased by Php26 million, or 3%, to Php1,006 million in the first nine months of 2013 from Php1,032 million in the same period in 2012, primarily due to the decrease in call volumes and the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.06 for the nine months ended September 30, 2013 from Php42.56 for the nine months ended September 30, 2013 from Php42.56 for the nine months of 2013 from Php42.79 in the same period in 2012, partially offset by the increase in the average collection rate in dollar terms.

Our total international long distance service revenues, net of interconnection costs, decreased by Php77 million, or 2%, to Php3,417 million in the first nine months of 2013 from Php3,494 million in the same period in 2012. The decrease was primarily due to lower inbound net average settlement rate in dollar terms on account of higher interconnection costs, and the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar and the decrease in outbound call volumes, partly offset by an increase in inbound call volumes and higher outbound net average collection rate in dollar terms.

## National Long Distance Service

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

|   |          |                     | Decreas  | se   |
|---|----------|---------------------|----------|------|
|   | 2013     | 2012 <sup>(1)</sup> | Amount   | %    |
| Total national long distance service revenues (in millions) | Php3,481 | Php3,873            | (Php392) | (10) |
| National long distance call volumes (in million minutes)    | 644      | 747                 | (103)    | (14) |

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

Our national long distance service revenues decreased by Php392 million, or 10%, to Php3,481 million in the first nine months of 2013 from Php3,873 million in the same period in 2012, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services. The percentage contribution of national long distance revenues to our fixed line service revenues was 8% and 9% in the first nine months of 2013 and 2012, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Ph279 million, or 9%, to Php2,699 million in the first nine months of 2013 from Php2,978 million in the same period in 2012, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

## Data and Other Network Services

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

|   | 2013      | 2012 <sup>(1)</sup> | Amount   | %  |  |
|---|-----------|---------------------|----------|----|--|
| Data and other network service revenues (in millions) | Php20,338 | Php18,553           | Php1,785 | 10 |  |
| Domestic  | 14,817    | 13,836              | 981      | 7  |  |
| Broadband   | 9,096     | 8,380               | 716      | 9  |  |
| Leased Lines and Others                               | 5,721     | 5,456               | 265      | 5  |  |
| International<br>Leased Lines and Others              | 4,247     | 4,035               | 212      | 5  |  |
| Data Centers  | 1,274     | 682                 | 592      | 87 |  |
| Subscriber base                                       |           |                     |          |    |  |
| Broadband   | 949,762   | 879,237             | 70,525   | 8  |  |
| SWUP  | 28,339    | 20,838              | 7,501    | 36 |  |

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

Our data and other network services posted revenues of Php20,338 million in the first nine months of 2013, an increase of Php1,785 million, or 10%, from Php18,553 million in the same period in 2012, primarily due to higher revenues from *PLDT DSL*, data centers, and domestic leased line revenues resulting from the higher revenue contribution of Metro Ethernet, as well as higher international data revenues primarily from i-Gate. The percentage contribution of this service segment to our fixed line service revenues was 44% and 42% in the first nine months of 2013 and 2012, respectively.

## Domestic

Domestic data services contributed Php14,817 million in the first nine months of 2013, an increase of Php981 million, or 7%, as compared with Php13,836 million in the same period in 2012 mainly due to higher DSL, Fibr and Metro Ethernet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower IP-VPN revenues. The percentage contribution of domestic data service revenues to total data and other network services was 73% and 74% in the first nine months of 2013 and 2012, respectively.

## Broadband

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *Fibr*, our most advanced broadband internet connection, which is intended for individual internet users.

Broadband data revenues amounted to Php9,096 million in the first nine months of 2013, an increase of Php716 million, or 9%, from Php8,380 million in the same period in 2012 as a result of the increase in the number of subscribers by 70,525, or 8%, to 949,762 subscribers as at September 30, 2013 from 879,237 subscribers as at September 30, 2012. Broadband revenues accounted for 45% of total data and other network service revenues in each of the first nine months of 2013 and 2012.

#### Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at September 30, 2013, *SWUP* had a total subscriber base of 28,339 up by 7,501, or 36%, from 20,838 subscribers in the same period in 2012. Leased lines and other data revenues amounted to Php5,721 million in the first nine months of 2013, an increase of Php265 million, or 5%, from Php5,456 million in the same period in 2012, primarily due to

higher revenues from Metro Ethernet and *Shops.Work*, partially offset by lower internet exchange and IP-VPN revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services were 28% and 29% in the first nine months of 2013 and 2012, 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, which provide data networking services to multinational companies. International data service revenues increased by Php212 million, or 5%, to Php4,247 million in the first nine months of 2013 from Php4,035 million in the same period in 2012, primarily due to higher i-Gate revenues and an increase in revenues from various global service providers, partially offset by lower inland-cable lease and Fibernet revenues, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues was 21% and 22% in the first nine months of 2013 and 2012, respectively.

## Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Data center revenues increased by Php592 million, or 87%, to Php1,274 million in the first nine months of 2013 from Php682 million in the same period in 2012 mainly due to higher co-location and managed services as a result of the consolidation of IPCDSI in October 2012. The percentage contribution of this service segment to our total data and other network service revenues was 6% and 4% in the first nine months of 2013 and 2012, respectively.

#### Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues increased by Php102 million, or 7%, to Php1,529 million in the first nine months of 2013 from Php1,427 million in the same period in 2012 mainly due to higher outsourcing fees and co-location charges, and the revenue contribution of PGNL, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first nine months of 2013 and 2012.

## Non-service Revenues

Non-service revenues increased by Php540 million, or 83%, to Php1,190 million in the first nine months of 2013 from Php650 million in the same period in 2012, primarily due to higher revenues from *Telpad* units.

## Expenses

Expenses related to our fixed line business totaled Php39,892 million in the first nine months of 2013, an increase of Php93 million as compared with Php39,799 million in the same period in 2012. The increase was primarily due to higher expenses related to interconnection costs, cost of sales, depreciation and amortization, professional and other contracted services, asset impairment, repairs and maintenance, and taxes and licenses, partly offset by lower expenses related to compensation and employee benefits, selling and promotions, insurance and security services, and communication, training and travel. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 85% and 89% in the first nine months of 2013 and 2012, respectively.

|  |           |     |                     |      | Increase (De | crease) |
|--|-----------|-----|---------------------|------|--------------|---------|
|  | 2013      | %   | 2012 <sup>(1)</sup> | %    | Amount       | %       |
|  |           |     | (in millio          | ons) |              |         |
| Depreciation and amortization              | Php9,934  | 25  | Php9,681            | 24   | Php253       | 3       |
| Compensation and employee benefits         | 9,807     | 25  | 10,751              | 27   | (944)        | (9      |
| Interconnection costs                      | 6,021     | 15  | 5,579               | 14   | 442          | 8       |
| Repairs and maintenance                    | 4,102     | 10  | 4,030               | 10   | 72           | 2       |
| Professional and other contracted services | 2,580     | 7   | 2,501               | 6    | 79           |         |
| Rent                                       | 1,930     | 5   | 1,928               | 5    | 2            | -       |
| Cost of sales                              | 1,204     | 3   | 794                 | 2    | 410          | 52      |
| Selling and promotions                     | 1,171     | 3   | 1,329               | 4    | (158)        | (12     |
| Taxes and licenses                         | 872       | 2   | 835                 | 2    | 37           | . 4     |
| Asset impairment                           | 857       | 2   | 780                 | 2    | 77           | 10      |
| Communication, training and travel         | 555       | 1   | 605                 | 2    | (50)         | (8      |
| Insurance and security services            | 417       | 1   | 490                 | 1    | (73)         | (15     |
| Amortization of intangible assets          | 1         | -   | -                   | -    | 1            | 100     |
| Other expenses                             | 441       | 1   | 496                 | 1    | (55)         | (11     |
| Total                                      | Php39,892 | 100 | Php39,799           | 100  | Php93        | -       |

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

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

Depreciation and amortization charges increased by Php253 million, or 3%, to Php9,934 million due to higher depreciable asset base.

Compensation and employee benefits expenses decreased by Php944 million, or 9%, to Php9,807 million primarily due to lower MRP costs, net of the retroactive adjustment of the application of the Revised PAS 19 of Php732 million in the first nine months of 2013, a decrease in salaries and employee benefits, and lower provision for LTIP costs, partially offset by higher provision for pension costs. Employee headcount decreased to 9,892 in the first nine months of 2013 as compared with 10,619 in the same period in 2012 mainly due to a decrease in PLDT's and Digitel's headcounts as a result of the MRP, partially offset by the number of employee headcount of IPCDSI, which was included in the consolidation beginning October 2012.

Interconnection costs increased by Php442 million, or 8%, to Php6,021 million primarily due to higher international long distance interconnection/settlement costs as a result of higher international received paid calls that terminated to other domestic carriers, partially offset by lower settlement costs for national long distance interconnection costs and data and other network services particularly Fibernet and Infonet.

Repairs and maintenance expenses increased by Php72 million, or 2%, to Php4,102 million primarily due to higher repairs and maintenance costs for IT software and hardware, and buildings, partially offset by a decrease in office and site electricity costs, lower repairs and maintenance costs on central office/telecoms equipment, cable and wire facilities, vehicles, furniture and other work equipment, and lower site fuel and electricity consumption.

Professional and other contracted service expenses increased by Php79 million, or 3%, to Php2,580 million primarily due to higher contracted service and bill printing fees, partially offset by lower consultancy and technical service fees.

Rent expenses increased by Php2 million to Php1,930 million primarily due to higher domestic leased circuit charges, and site and pole rentals, partially offset by lower international leased circuits charges.

Cost of sales increased by Php410 million, or 52%, to Php1,204 million primarily due to higher sale of Telpad units.

Selling and promotion expenses decreased by Php158 million, or 12%, to Php1,171 million primarily due to lower advertising and public relations expenses, partially offset by higher commissions expenses.

Taxes and licenses increased by Php37 million, or 4%, to Php872 million as a result of higher municipal licenses and other business-related taxes.

Asset impairment increased by Php77 million, or 10%, to Php857 million mainly due to higher provision for uncollectible receivables.

Communication, training and travel expenses decreased by Php50 million, or 8%, to Php555 million mainly due to a decrease in mailing and courier, and fuel consumption charges, partially offset by higher local and foreign training and travel.

Insurance and security services decreased by Php73 million, or 15%, to Php417 million primarily due to lower expenses on insurance and bond premiums, and office security services.

Amortization of intangible assets amounted to Php1 million in the first nine months of 2013 relating to the amortization of intangible assets related to customer list and licenses in relation to IPCDSI's acquisition.

Other expenses decreased by Php55 million, or 11%, to Php441 million primarily due to lower various business and operational-related expenses.

## Other Expenses

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

|  |            |            | Change   |       |
|--|------------|------------|----------|-------|
|  | 2013       | 2012(1)    | Amount   | %     |
|  |            | (in millio | าร)      |       |
| Other Income (Expenses):                                 |            |            |          |       |
| Gains (losses) on derivative financial instruments – net | Php508     | (Php1,506) | Php2,014 | 134   |
| Interest income  | 318        | 527        | (209)    | (40)  |
| Equity share (losses) in net earnings of associates      | (18)       | 114        | (132)    | (116) |
| Foreign exchange gains (losses) – net                    | (1,000)    | 636        | (1,636)  | (257) |
| Financing costs – net                                    | (2,644)    | (2,990)    | 346      | (12)  |
| Others   | 1,760      | 1,638      | 122      | 7     |
| Total  | (Php1,076) | (Php1,581) | Php505   | (32)  |

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

Our fixed line business' other expenses amounted to Php1,076 million in the first nine months of 2013, a decrease of Php505 million, or 32%, from Php1,581 million in the same period in 2012. The decrease was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php508 million in the first nine months of 2013 as against net losses on derivative financial instruments of Php1,506 million in the same period in 2012 due to maturity of the 2012 hedges, the depreciation of the Philippine peso and a wider dollar and peso interest rate differentials; (ii) lower financing costs by Php346 million mainly due to lower average interest rates on loans, partly offset by lower capitalized interest and higher financing charges; (iii) an increase in other income by Php122 million mainly due to the gain on insurance claims and dividend income in the first nine months of 2013; (iv) a decrease in interest income by Php209 million due to lower weighted average peso interest rate, lower principal amounts of dollar and peso placements, the lower weighted average exchange rate of the Philippine peso to the U.S. dollar and shorter average tenor of U.S. dollar placements, partially offset by higher U.S. dollar interest rates and longer average tenor of Philippine peso placements in the first nine months of 2013; (v) foreign exchange losses of Php1,000 million in the first nine months of 2013 as against foreign exchange gains of Php636 million in the same period in 2012 on account of revaluation of net foreign currency-denominated liabilities due to the depreciation of the Philippine peso relative to the U.S. dollar to Php43.54 as at September 30, 2013 from Php41.08 as at December 31, 2012 as against an appreciation of the Philippine peso relative to the U.S. dollar to Php41.74 as at September 30, 2012 from Php43.92 as at December 31, 2011; and (vi) equity share in net losses of associates and joint ventures of Php18 million as against equity share in net earnings of associates of Php114 million in the same period in 2012 primarily due to the disposal of Philweb shares in 2012.

## Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php81 million in the first nine months of 2013, a change of Php515 million, or 119%, as against a provision for income tax of Php434 million in the same period in 2012, primarily due to lower taxable income and the recognition of deferred tax assets on intangible assets. The effective tax rate for our fixed line business was negative 1% in the first nine months of 2013 and 13% in the same period in 2012.

## Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php6,293 million in the first nine months of 2013, increased by Php3,276 million, or 109%, as compared with Php3,017 million in the same period in 2012.

## EBITDA

As a result of the foregoing, our fixed line business' EBITDA increased by Php3,242 million, or 22%, to Php17,955 million in the first nine months of 2013 from Php14,713 million in the same period in 2012.

## Core Income

Our fixed line business' core income increased by Php3,521 million, or 101%, to Php7,005 million in the first nine months of 2013 from Php3,484 million in the same period in 2012, primarily as a result of higher fixed line revenues, a decrease in other expenses and a benefit from income tax, partially offset by higher fixed line expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php732 million in the first nine months of 2013.

## Others

#### Expenses

Expenses associated with our other business segment totaled Php4 million in the first nine months of 2013, a decrease of Php11 million, or 73%, as compared with Php15 million in the same period in 2012, primarily due to PCEV's lower other operating expenses.

## Other Income

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

|  |          |             | Change     |      |
|--|----------|-------------|------------|------|
|  | 2013     | 2012        | Amount     | %    |
|  |          | (in million | is)        |      |
| Other Income (Expenses):                   |          |             |            |      |
| Equity share in net earnings of associates | Php1,988 | Php1,361    | Php627     | 46   |
| Foreign exchange gains – net               | 364      | -           | 364        | 100  |
| Interest income                            | 101      | 42          | 59         | 140  |
| Others                                     | 442      | 2,756       | (2,314)    | (84) |
| Total                                      | Php2,895 | Php4,159    | (Php1,264) | (30) |

Other income decreased by Php1,264 million, or 30%, to Php2,895 million in the first nine months of 2013 from Php4,159 million in the same period in 2012 primarily due to lower other income by Php2,314 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon in the first nine months of 2012 and lower dividend income by Php313 million, partly offset by an increase in equity share in net earnings of associates by Php627 million mainly due to the increase in PCEV's share in the net earnings of Beacon, which includes its share in the results of operations of Meralco, and equity share in Beta, a holding company of the SPi Group, where we reinvested US\$40 million of the proceeds from the sale of our BPO business in 2013.

In the first nine months of 2013, Meralco's reported and core income amounted to Php13,644 million and Php13,558 million, respectively, compared with Php13,646 million and Php12,892 million, respectively, in the same period in 2012. The increase in consolidated core income is primarily due to the increase in billed customers, higher volume sold, partially offset by lower generation costs in the first nine months of 2013. Reported income remained stable in the first nine months of 2013. PCEV's share in the reported and core income of Meralco, including its share in Beacon's results of operations and amortization of fair value adjustment related to the acquisition of Meralco, amounted to Php1,805 million and Php1,785 million, respectively, in the first nine months of 2013, and Php1,361 million and Php1,451 million, respectively, in the same period in 2012.

## Net Income

As a result of the foregoing, our other business segment registered a net income of Php2,816 million, a decrease of Php1,325 million, or 32%, in the first nine months of 2013 from Php4,141 million in the same period in 2012.

## EBITDA

As a result of the foregoing, negative EBITDA from our other business segment decreased by Php11 million, or 73%, to negative Php4 million in the first nine months of 2013 from negative Php15 million in the same period in 2012.

## Core Income

Our other business segment's core income amounted to Php2,498 million in the first nine months of 2013, a decrease of Php1,733 million, or 41%, as compared with Php4,231 million in the same period in 2012 mainly as a result of a lower other income, partially offset by an increase in the equity share of Beacon and equity share in Beta in 2013.

## Years Ended December 31, 2012 and 2011

## On a Consolidated Basis

#### Revenues

We reported consolidated revenues of Php163,484 million in 2012, an increase of Php15,005 million, or 10%, as compared with Php148,479 million in 2011, primarily due to higher cellular and broadband revenues from our wireless business, and higher revenues from data and other network, and local exchange services from our fixed line business, partially offset by lower revenues from international long distance and national long distance services from our fixed line business, and satellite and other services from our wireless business.

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

|                            | 2012 <sup>(1 and 2)</sup> | %             | 2011 <sup>(2 and 3)</sup> | %   | Amount    | %   |  |  |  |
|----------------------------|---------------------------|---------------|---------------------------|-----|-----------|-----|--|--|--|
|                            |                           | (in millions) |                           |     |           |     |  |  |  |
| Wireless                   | Php115,932                | 71            | Php103,538                | 70  | Php12,394 | 12  |  |  |  |
| Fixed line                 | 60,246                    | 37            | 58,290                    | 39  | 1,956     | 3   |  |  |  |
| Inter-segment transactions | (12,694)                  | (8)           | (13,349)                  | (9) | 655       | (5) |  |  |  |
| Consolidated               | Php163,484                | 100           | Php148,479                | 100 | Php15,005 | 10  |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's revenue contribution of Php22,587 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
 Includes the Digitel Group's revenue contribution of Php3,845 million for the period from October 26, 2011 to December 31, 2011.

# Expenses

Consolidated expenses increased by Php16,556 million, or 16%, to Php122,980 million in 2012 from Php106,424 million in 2011, as a result of higher expenses related to compensation and employee benefits, including the retroactive effect of the application of the Revised PAS 19 in our manpower rightsizing program, or MRP, costs of Php1,287 million in 2012, depreciation and amortization, cost of sales, repairs and maintenance, selling and promotions, communication, training and travel, insurance and security services, and professional and other contracted services, partially offset by lower expenses related to asset impairment, interconnection costs and other operating costs.

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

|                            | 2012 <sup>(1 and 2)</sup> | %    | 2011 <sup>(2 and 3)</sup> | %    | Amount    | %   |  |  |  |
|----------------------------|---------------------------|------|---------------------------|------|-----------|-----|--|--|--|
|                            | (in millions)             |      |                           |      |           |     |  |  |  |
| Wireless                   | Php83,717                 | 68   | Php71,009                 | 67   | Php12,708 | 18  |  |  |  |
| Fixed line                 | 52,776                    | 43   | 49,174                    | 46   | 3,602     | 7   |  |  |  |
| Others                     | 18                        | -    | 11                        | -    | 7         | 64  |  |  |  |
| Inter-segment transactions | (13,531)                  | (11) | (13,770)                  | (13) | 239       | (2) |  |  |  |
| Consolidated               | Php122,980                | 100  | Php106,424                | 100  | Php16,556 | 16  |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's expenses of Php24,183 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 - Employee Benefits. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Includes the Digitel Group's expenses of Php3,785 million for the period from October 26, 2011 to December 31, 2011.

## Other Income (Expenses)

Consolidated other income amounted to Php3,102 million in 2012, a change of Php4,072 million as against other expenses of Php970 million in 2011, primarily due to the combined effects of the following: (i) foreign exchange gains of Php3,282 million in 2012 as against foreign exchange losses of Php735 million in 2011 mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine

peso relative to the U.S. dollar to Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011; (ii) an increase in other income by Php3,187 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon, preferred dividends from Beacon, gain on the first and second tranches of disposal of Philweb shares, an increase in the Digitel Group's other income, higher net gain on fixed assets disposal and the reversal of prior year's provisions; (iii) lower interest income by Php3 million due to a lower average interest rate and lower average level of peso investments, effect of appreciation of the Philippine peso relative to the U.S. dollar and shorter average tenor of placements, partly offset by the higher average level of dollar investments; (iv) an increase in net financing costs by Php422 million mainly due to higher interest on loans and other related items on account of higher outstanding long-term debts, partially offset by our wireless business' higher capitalized interest in 2012; (v) a decrease in equity share in net earnings of associates and joint ventures by Php497 million; and (vi) net losses on derivative financial instruments of Php2,009 million in 2012 as against net gains on derivative financial instruments of Php201 million in 2011 mainly due to the effect of narrower U.S. dollar and Philippine peso interest rate differentials and higher level of appreciation of the Philippine peso relative to the U.S. dollar in 2012 on principal-only swap transactions of PLDT and the increase in mark-to-market loss on interest rate swap contracts of DMPI in 2012, partially offset by lower hedge costs of PLDT.

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

|                            |                           |      |                           |       | Chang    | je    |  |  |  |
|----------------------------|---------------------------|------|---------------------------|-------|----------|-------|--|--|--|
|                            | 2012 <sup>(1 and 2)</sup> | %    | 2011 <sup>(2 and 3)</sup> | %     | Amount   | %     |  |  |  |
|                            | (in millions)             |      |                           |       |          |       |  |  |  |
| Wireless                   | Php893                    | 29   | (Php1,734)                | 179   | Php2,627 | (151) |  |  |  |
| Fixed line                 | (1,781)                   | (57) | (966)                     | 99    | (815)    | 84    |  |  |  |
| Others                     | 4,358                     | 140  | 1,998                     | (206) | 2,360    | 118   |  |  |  |
| Inter-segment transactions | (368)                     | (12) | (268)                     | 28    | (100)    | 37    |  |  |  |
| Consolidated               | Php3,102                  | 100  | (Php970)                  | 100   | Php4,072 | (420) |  |  |  |

(1) Includes the Digitel Group's other income of Php1,007 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

<sup>(3)</sup> Includes the Digitel Group's other expenses of Php941 million for the period from October 26, 2011 to December 31, 2011.

#### Net Income

Consolidated net income increased by Php4,881 million, or 16%, to Php36,099 million in 2012 from Php31,218 million in 2011. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated revenues by Php15,005 million; (ii) a decrease in consolidated provision for income tax by Php2,684 million, which was mainly due to lower taxable income of our wireless and fixed line businesses; (iv) an increase in consolidated expenses by Php16,556 million; and (v) an increase in consolidated other income – net by Php4,072 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php167.07 in 2012 from consolidated basic and diluted EPS of Php161.05 and Php160.91, respectively, in 2011. Our weighted average number of outstanding common shares was approximately 216.06 million and 191.37 million in the years ended December 31, 2012 and 2011, respectively.

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

|                            |                           |     |                           |      | Chang    | je   |
|----------------------------|---------------------------|-----|---------------------------|------|----------|------|
|                            | 2012 <sup>(1 and 2)</sup> | %   | 2011 <sup>(2 and 3)</sup> | %    | Amount   | %    |
|                            |                           |     | (in millio                | ons) |          |      |
| Wireless                   | Php25,014                 | 69  | Php22,366                 | 72   | Php2,648 | 12   |
| Fixed line                 | 5,740                     | 16  | 5,847                     | 19   | (107)    | (2)  |
| Others                     | 4,333                     | 12  | 1,985                     | 6    | 2,348    | 118  |
| Inter-segment transactions | 469                       | 1   | 153                       | -    | 316      | 207  |
| Continuing operations      | 35,556                    | 98  | 30,351                    | 97   | 5,205    | 17   |
| Discontinued operations    | 543                       | 2   | 867                       | 3    | (324)    | (37) |
| Consolidated               | Php36,099                 | 100 | Php31,218                 | 100  | Php4,881 | 16   |

(1) Includes the Digitel Group's net income of Php342 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 - Employee Benefits. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

<sup>(3)</sup> Includes the Digitel Group's net loss of Php606 million for the period from October 26, 2011 to December 31, 2011.

## EBITDA

Our consolidated EBITDA from continuing operations, amounted to Php75,388 million in 2012, a decrease of Php2,837 million, or 4%, as compared with Php78,225 million in 2011, primarily due to higher operating expenses driven by higher compensation and employee benefits, cost of sales, repairs and maintenance, rent, selling and promotions, and communication, training and travel, partially offset by an increase in consolidated revenues.

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

|                            |                           |               |                           |     | Chan     | ge   |  |  |  |
|----------------------------|---------------------------|---------------|---------------------------|-----|----------|------|--|--|--|
|                            | 2012 <sup>(1 and 2)</sup> | %             | 2011 <sup>(2 and 3)</sup> | %   | Amount   | %    |  |  |  |
|                            |                           | (in millions) |                           |     |          |      |  |  |  |
| Wireless                   | Php54,480                 | 72            | Php55,433                 | 71  | (Php953) | (2)  |  |  |  |
| Fixed line                 | 20,089                    | 27            | 22,382                    | 29  | (2,293)  | (10) |  |  |  |
| Others                     | (18)                      | -             | (11)                      | -   | (7)      | 64   |  |  |  |
| Inter-segment transactions | 837                       | 1             | 421                       | -   | 416      | 99   |  |  |  |
| Continuing operations      | Php75,388                 | 100           | Php78,225                 | 100 | (Php     | (4)  |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's EBITDA of Php6,040 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 - Employee Benefits. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Includes the Digitel Group's EBITDA of Php1,056 million for the period from October 26, 2011 to December 31, 2011.

#### Core Income

Our consolidated core income, including core income from discontinued operations, amounted to Php36,356 million in 2012, a decrease of Php1,926 million, or 5%, as compared with Php38,616 million in 2011, primarily due to an increase in consolidated expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php1,287 million in 2012, partially offset by an increase in consolidated revenues and lower provision for income tax. Our consolidated basic and diluted core EPS, including basic and diluted core EPS from discontinued operations, also decreased to Php170.58 in 2012 from Php199.39 and Php199.22, respectively, in 2011.

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

|                            |                           |               |                           |     | Chang      | e    |  |  |  |  |
|----------------------------|---------------------------|---------------|---------------------------|-----|------------|------|--|--|--|--|
|                            | 2012 <sup>(1 and 2)</sup> | %             | 2011 <sup>(2 and 3)</sup> | %   | Amount     | %    |  |  |  |  |
|                            |                           | (in millions) |                           |     |            |      |  |  |  |  |
| Wireless                   | Php25,694                 | 70            | Php29,903                 | 77  | (Php4,209) | (14) |  |  |  |  |
| Fixed line                 | 5,769                     | 16            | 5,310                     | 14  | 459        | 9    |  |  |  |  |
| Others                     | 4,424                     | 12            | 2,461                     | 6   | 1,963      | 80   |  |  |  |  |
| Inter-segment transactions | 469                       | 1             | 153                       | 1   | 316        | 207  |  |  |  |  |
| Continuing operations      | 36,356                    | 99            | 37,827                    | 98  | (1,471)    | (4)  |  |  |  |  |
| Discontinued operations    | 551                       | 1             | 789                       | 2   | (238)      | (30) |  |  |  |  |
| Consolidated               | Php36,907                 | 100           | Php38,616                 | 100 | (Php1,709) | (4)  |  |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's core income of Php1,784 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying encoded to reflect descented to reflect the provide the provide the provided to reflect the provided to re

consolidated financial statements for further discussion.
 Includes the Digitel Group's negative core income of Php9 million for the period from October 26, 2011 to December 31, 2011.

## On a Business Segment Basis

#### Wireless

## Revenues

We generated revenues from our wireless business of Php115,932 million in 2012, an increase of Php12,394 million, or 12%, from Php103,538 million in 2011.

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

|  |                           |     |                           |     | Increase (Dec | crease) |  |
|--|---------------------------|-----|---------------------------|-----|---------------|---------|--|
|  | 2012 <sup>(1 and 2)</sup> | %   | 2011 <sup>(2 and 3)</sup> | %   | Amount        | %       |  |
|  |                           |     | (in millions              | 5)  |               |         |  |
| Service Revenues:  |                           |     |                           |     |               |         |  |
| Cellular   | Php103,604                | 89  | Php93,645                 | 90  | Php9,959      | 11      |  |
| Wireless broadband, satellite and others                         |                           |     |                           |     |               |         |  |
| Wireless broadband   | 8,606                     | 8   | 6,804                     | 7   | 1,802         | 26      |  |
| Satellite and others   | 1,569                     | 1   | 1,620                     | 2   | (51)          | (3)     |  |
|  | 113,779                   | 98  | 102,069                   | 99  | 11,710        | 11      |  |
| Non-Service Revenues:  |                           |     |                           |     |               |         |  |
| Sale of cellular handsets, cellular SIM-packs and broadband data |                           |     |                           |     |               |         |  |
| modems   | 2,153                     | 2   | 1,469                     | 1   | 684           | 47      |  |
| Total Wireless Revenues  | Php115,932                | 100 | Php103,538                | 100 | Php12,394     | 12      |  |

(1) Includes the Digitel Group's revenue contribution of Php19,581 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments. Includes the Digitel Group's revenue contribution of Php3, 184 million for the period from October 26, 2011 to December 31, 2011.

#### Service Revenues

Our wireless service revenues in 2012 increased by Php11,710 million, or 11%, to Php113,779 million as compared with Php102,069 million in 2011, mainly as a result of higher revenues from our cellular and wireless broadband services. The increase in our cellular revenues was mainly due to an increase in DMPI's revenue contribution to our wireless service revenues in 2012, partially offset by the decline in Smart's revenues from international and domestic calls, as well as domestic outbound and inbound text messaging services as a result of increased utilization of unlimited offers, increasing patronage of social networking sites, and the NTC-mandated decrease in SMS interconnection charges. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular ARPUs for 2012 were lower as compared with 2011. As a percentage of our total wireless revenues, service revenues accounted for 98% and 99% in 2012 and 2011, respectively.

## Cellular Service

Our cellular service revenues in 2012 amounted to Php103,604 million, an increase of Php9,959 million, or 11%, from Php93,645 million in 2011. Cellular service revenues accounted for 91% and 92% of our wireless service revenues in 2012 and 2011, respectively.

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

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

|                           |                           |                           | Increase | se |  |  |
|---------------------------|---------------------------|---------------------------|----------|----|--|--|
|                           | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount   | %  |  |  |
|                           |                           | (in millions)             |          |    |  |  |
| Cellular service revenues | Php103,604                | Php93,645                 | Php9,959 | 11 |  |  |
| By service type           | 101,042                   | 91,119                    | 9,923    | 11 |  |  |
| Prepaid                   | 84,525                    | 81,649                    | 2,876    | 2  |  |  |
| Postpaid                  | 16,517                    | 9,470                     | 7,047    | 74 |  |  |
| By component              | 101,042                   | 91,119                    | 9,923    | 1  |  |  |
| Voice                     | 49,627                    | 43,884                    | 5,743    | 10 |  |  |
| Data                      | 51,415                    | 47,235                    | 4,180    | 1  |  |  |
| Others <sup>(4)</sup>     | 2,562                     | 2,526                     | 36       |    |  |  |

<sup>(1)</sup> Includes DMPI's cellular service revenues of Php17.241 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments. Includes DMPI's cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.

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

The following table shows other key measures of our cellular business as at and for the years ended December 31, 2012 and 2011:

|            |   |  | rease)   |
|------------|---|--|--|
| 2012       | 2011  | Amount   | %  |
| 69.866.458 | 63.696.629  | 6.169.829  | 10   |
| 67,611,537 | 61,792,792  | 5,818,745  | 9  |
| 25,061,453 | 28,011,521  | (2,950,068)  | (11)   |
| 28,445,053 | 20,467,175  | 7,977,878  | 39   |
| 14,105,031 | 13,314,096  | 790,935  | 6  |
| 2,254,921  | 1,903,837   | 351,084  | 18   |
| 1,571,441  | 1,353,089   | 218,352  | 16   |
| 683,480    | 550,748   | 132,732  | 24   |
|            |   |  |  |
| 53 026     | 44 192  | 8 834  | 20   |
|            | , · ·   | - /  | 21   |
|            |   |  | (8)  |
|            |   |  | 22   |
|            |   |  | 11   |
|            |   | 163  | 6  |
| 403        | 223   | 180  | 81   |
| 510 664    | 25/ 125   | 156 520  | 44   |
|            |   | ,  | 44   |
|            |   |  | 42   |
|            |   |  | 42   |
|            |   | ., .   | 12   |
|            | - / -   | - / -  | 32   |
|            |   |  | 301  |
|            |   |  | 43   |
|            | 69,866,458<br>67,611,537<br>25,061,453<br>28,445,053<br>14,105,031<br>2,254,921<br>1,571,441<br>683,480<br>53,026<br>49,598<br>1,243<br>48,355<br>3,025 | $\begin{array}{cccccccccccccccccccccccccccccccccccc$ | $\begin{array}{cccccccccccccccccccccccccccccccccccc$ |

(1) Includes DMPI's minutes of 15,574 million minutes for the full year 2012 and 2,681 million minutes for the period from October 26, 2011 to December 31, 2011.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
 Includes DMPI's SMS count of 61,208 million for the full year 2012 and 9,526 million for the period from October 26, 2011 to December 31, 2011.

Revenues generated from our prepaid cellular services amounted to Php84,525 million in 2012, an increase of Php2,876 million, or 4%, as compared with Php81,649 million in 2011. Prepaid cellular service revenues accounted for 84% and 90% of cellular voice and data revenues in 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php16,517 million in 2012, an increase of Php7,047 million, or 74%, as compared with Php9,470 million earned in 2011, and which accounted for 16% and 10% of cellular voice and data revenues in 2012 and 2011, respectively. The increase in our postpaid cellular service revenues was primarily due to DMPI's higher postpaid cellular service revenue contribution by Php5,804 million and Smart's higher postpaid cellular service revenues by Php1,242 million due to an increase in subscriber base. The increase in revenues from our prepaid cellular services was primarily due to an increase in DMPI's revenue contribution to our prepaid cellular service revenues by Php8,395 million in 2012 and Smart's higher revenues from domestic bucket-priced/unlimited SMS and internet-based VAS, partially offset by a decline in Smart's revenues from international and domestic calls and domestic standard SMS.

#### Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, increased by Php5,743 million, or 13%, to Php49,627 million in 2012 from Php43,884 million in 2011, primarily due to higher cellular domestic call revenues, partially offset by lower cellular international call revenues. Cellular voice services accounted for 48% and 47% of our cellular service revenues in 2012 and 2011, respectively.

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

|                 |                           |                           | Increase (Dec | crease) |
|-----------------|---------------------------|---------------------------|---------------|---------|
|                 | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount        | %       |
|                 |                           | (in millions)             |               |         |
| /oice services: |                           |                           |               |         |
| Domestic        |                           |                           |               |         |
| Inbound         | Php4,737                  | Php4,963                  | (Php226)      | (5)     |
| Outbound        | 28,440                    | 22,441                    | 5,999         | 27      |
|                 | 33,177                    | 27,404                    | 5,773         | 21      |
| International   |                           |                           |               |         |
| Inbound         | 13,838                    | 13,906                    | (68)          | -       |
| Outbound        | 2,612                     | 2,574                     | 38            | 1       |
|                 | 16,450                    | 16,480                    | (30)          | -       |
| Total           | Php49.627                 | Php43,884                 | Php5,743      | 13      |

<sup>(1)</sup> Includes DMPI's cellular voice revenues of Php10,676 million of operations for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
 Includes DMPI's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011.

Domestic voice service revenues increased by Php5,773 million, or 21%, to Php33,177 million in 2012 from Php27,404 million in 2011, primarily due to an increase in domestic outbound voice service revenues by Php5,999 million, partially offset by lower domestic inbound voice revenues by Php226 million.

Revenues from domestic outbound voice service increased by Php5,999 million, or 27%, to Php28,440 million in 2012 from Php22,441 million in 2011 mainly due to increased traffic on unlimited calls and improved yield on bucket offers. Domestic outbound call volume of 48,355 million minutes increased by 8,598 million minutes, or 22%, from 39,757 million minutes in 2011.

Revenues from our domestic inbound voice service decreased by Php226 million, or 5%, to Php4,737 million in 2012 from Php4,963 million in 2011 primarily due to a decrease in traffic originating from other domestic mobile carriers. Domestic inbound call volumes of 1,243 million minutes in 2012, decreased by 107 million minutes, or 8%, from 1,350 million minutes in 2011 primarily due to lower traffic from fixed line calls.

International voice service revenues decreased by Php30 million to Php16,450 million in 2012 from Php16,480 million in 2011 primarily due to lower international inbound voice service revenues by Php68 million to Php13,838 million in 2012 from Php13,906 million in 2011, partially offset by higher international outbound voice service revenues by Php38 million, or 1%, to Php2,612 million in 2012 from Php2,574 million in 2011. The net decrease in international voice service revenues was due to the unfavorable effect on dollar-linked revenues of lower weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011. International inbound and outbound calls totaled 3,428 million minutes, an increase of 343 million minutes, or 11%, from 3,085 million minutes in 2011.

## Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php4,180 million, or 9%, to Php51,415 million in 2012 from Php47,235 million in 2011 primarily due to higher text messaging revenues and higher internet-based/Pasa Load/Give-a-Load VAS, partially offset by lower MMS/SMS-based VAS revenues. Cellular data services accounted for 50% of our cellular service revenues in in each 2012 and 2011.

|                                      |                     |                     | Increase (Decre | ease) |
|--------------------------------------|---------------------|---------------------|-----------------|-------|
|                                      | 2012 <sup>(1)</sup> | 2011 <sup>(1)</sup> | Amount          | %     |
|                                      |                     | (in millions)       |                 |       |
| Text messaging                       |                     |                     |                 |       |
| Domestic                             | Php42,719           | Php40,096           | Php2,623        | 7     |
| Bucket-Priced/Unlimited              | 28,752              | 23,164              | 5,588           | 24    |
| Standard                             | 13,967              | 16,932              | (2,965)         | (18)  |
| International                        | 3,782               | 3,612               | 170             | 5     |
|                                      | 46,501              | 43,708              | 2,793           | 6     |
| Value-added services                 |                     |                     |                 |       |
| Mobile internet <sup>(2)</sup>       | 3,121               | 1,707               | 1,414           | 83    |
| SMS-based <sup>(3)</sup>             | 614                 | 652                 | (38)            | (6)   |
| Pasa Load/Give-a-load <sup>(4)</sup> | 693                 | 664                 | 29              | 4     |
| MMS-based <sup>(5)</sup>             | 412                 | 458                 | (46)            | (10)  |
|                                      | 4,840               | 3,481               | 1,359           | 39    |
| Financial services                   | 74                  | 46                  | 28              | 61    |
| Total                                | Php51,415           | Php47,235           | Php4,180        | 9     |

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

(1) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Includes revenues from web-based services, net of allocated discounts and content provider costs.

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

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

Text messaging-related services contributed revenues of Php46,501 million in 2012, an increase of Php2,793 million, or 6%, as compared with Php43,708 million in 2011, and accounted for 90% and 93% of our total cellular data service revenues in 2012 and 2011, respectively. The increase in revenues from text messaging-related services resulted mainly from an increase in DMPI's text messaging revenue contribution by Php4,432 million, partially offset by lower text messaging revenues from Smart mainly due to the NTC-mandated decrease in SMS interconnection charges. Text messaging revenues from the various bucket-priced/unlimited SMS offers totaled Php28,752 million in 2012, an increase of Php5,588 million, or 24%, as compared with Php23,164 million in 2011. Bucketpriced/unlimited text messages increased by 145,149 million, or 45%, to 467,737 million in 2012 from 322,588

million in 2011.

Standard text messaging revenues, which includes inbound and outbound standard SMS revenues, decreased by Php2,965 million, or 18%, to Php13,967 million in 2012 from Php16,932 million in 2011, primarily due to increased preference for unlimited SMS offers. Standard text messages increased by 3,344 million, or 12% to 31,614 million in 2012 from 28,270 million in 2011, as a result of increased domestic inbound SMS volume, partially offset by the decline in domestic outbound standard SMS volume.

International text messaging revenues amounted to Php3,782 million in 2012, an increase of Php170 million, or 5%, from Php3,612 million in 2011 mainly due to an increase in DMPI's international text messaging revenue contribution and the growth in Smart's international inbound SMS traffic, partially offset by the unfavorable effect of the appreciation of the peso relative to the U.S. dollar on international inbound text messaging revenues and a lower international outbound SMS traffic.

VAS contributed revenues of Php4,840 million in 2012, an increase of Php1,359 million, or 39%, as compared with Php3,481 million in 2011, primarily due to an increase in revenues from internet-based VAS, particularly from mobile internet browsing.

## Subscriber Base, ARPU and Churn Rates

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

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

|              |             |           | Increase (De | crease) |
|--------------|-------------|-----------|--------------|---------|
|              | 2012        | 2011      | Amount       | %       |
| Prepaid      | 5,818,745   | 3,603,022 | 2,215,723    | 61      |
| Smart        | (2,950,068) | 1,764,469 | (4,714,537)  | (267)   |
| Talk 'N Text | 7,977,878   | 1,499,794 | 6,478,084    | 432     |
| Sun Cellular | 790,935     | 338,759   | 452,176      | 133     |
| Postpaid     | 351,084     | 178,870   | 172,214      | 96      |
| Smart        | 132,732     | 129,173   | 3,559        | 3       |
| Sun Cellular | 218,352     | 49,697    | 168,655      | 339     |
| Total        | 6,169,829   | 3,781,892 | 2,387,937    | 63      |

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

|   | 11 1111 and 1111 |
|---|------------------|
| The following table summarizes our average monthly churn rates for the years ended December 3 |                  |

|              | 2012 | 2011 |
|--------------|------|------|
|              | (in  | %)   |
| Prepaid      |      |      |
| Smart        | 6.0  | 5.1  |
| Talk 'N Text | 4.1  | 5.5  |
| Sun Cellular | 11.0 | 10.0 |
| Postpaid     |      |      |
| Smart        | 2.6  | 2.1  |
| Sun Cellular | 1.0  | 1.0  |

For *Smart Prepaid* subscribers, the average monthly churn rate in 2012 and 2011 were 6% and 5.1%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 4.1% and 5.5% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 11.0% and 10.0% in 2012 and 2011, respectively.

The average monthly churn rate for Smart Postpaid subscribers were 2.6% and 2.1% in 2012 and 2011, respectively. The average monthly churn rate for Sun Cellular postpaid subscribers was 1.0% in each of 2012 and 2011.

| The following table summarizes our average m | nonthly cellular ARPUs for | the years ended December 31, 2012 and |
|--|----------------------------|---------------------------------------|
| 2011:  |                            |                                       |

|              | Gros   | Gross <sup>(1 and 2)</sup> |         | Decrease |        | (2 and 3) | Decrease |      |
|--------------|--------|----------------------------|---------|----------|--------|-----------|----------|------|
|              | 2012   | 2011                       | Amount  | %        | 2012   | 2011      | Amount   | %    |
| Prepaid      |        |                            |         |          |        |           |          |      |
| Smart        | Php167 | Php190                     | (Php23) | (12)     | Php145 | Php166    | (Php21)  | (13) |
| Talk 'N Text | 111    | 124                        | (13)    | (10)     | 97     | 109       | (12)     | (11) |
| Sun Cellular | 69     | 75                         | (6)     | (8)      | 59     | 65        | (6)      | (9)  |
| Postpaid     |        |                            |         |          |        |           |          |      |
| Smart        | 1,268  | 1,548                      | (280)   | (18)     | 1,251  | 1,510     | (259)    | (17) |
| Sun Cellular | 394    | 450                        | (56)    | (12)     | 391    | 447       | (56)     | (13) |

(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. As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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. (3)

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

|                            |                      |                    | Pre                  | epaid                  |                      |                       | Postpaid                   |                    |                             |                    |
|----------------------------|----------------------|--------------------|----------------------|------------------------|----------------------|-----------------------|----------------------------|--------------------|-----------------------------|--------------------|
|                            | Smart                | Smart Prepaid      |                      | Talk 'N Text Sun Cellu |                      | llular <sup>(1)</sup> | lular <sup>(1)</sup> Smart |                    | Sun Cellular <sup>(1)</sup> |                    |
|                            | Gross <sup>(2)</sup> | Net <sup>(3)</sup> | Gross <sup>(2)</sup> | Net <sup>(3)</sup>     | Gross <sup>(2)</sup> | Net <sup>(3)</sup>    | Gross <sup>(2)</sup>       | Net <sup>(3)</sup> | Gross <sup>(2)</sup>        | Net <sup>(3)</sup> |
| <b>2012</b> <sup>(4)</sup> |                      |                    |                      |                        |                      |                       |                            |                    |                             |                    |
| First Quarter              | 170                  | 148                | 116                  | 102                    | 68                   | 57                    | 1,292                      | 1,269              | 390                         | 388                |
| Second Quarter             | 164                  | 143                | 113                  | 100                    | 66                   | 57                    | 1,264                      | 1,237              | 400                         | 397                |
| hird Quarter               | 162                  | 140                | 107                  | 93                     | 67                   | 58                    | 1,253                      | 1,251              | 391                         | 388                |
| ourth Quarter              | 170                  | 149                | 106                  | 93                     | 74                   | 64                    | 1,265                      | 1,248              | 393                         | 391                |
| 011(4)                     |                      |                    |                      |                        |                      |                       |                            |                    |                             |                    |
| irst Quarter               | 198                  | 174                | 129                  | 113                    | -                    | -                     | 1,610                      | 1,557              | -                           | -                  |
| econd Quarter              | 196                  | 172                | 126                  | 111                    | -                    | -                     | 1,637                      | 1,575              | -                           |                    |
| hird Quarter               | 180                  | 158                | 117                  | 103                    | -                    | -                     | 1,493                      | 1,429              | -                           |                    |
| ourth Quarter              | 185                  | 159                | 124                  | 109                    | -                    | _                     | 1,451                      | 1,480              | _                           |                    |

<sup>(1)</sup> Sun Cellular brand and its subscribers were acquired by PLDT upon acquisition of a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through

DMPI, a wholly-owned subsidiary of Digitel.

Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.
 Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.

<sup>(4)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

#### Wireless Broadband, Satellite and Other Services

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

## Wireless Broadband

Revenues from our wireless broadband services increased by Php1,802 million, or 26%, to Php8,606 million in 2012 from Php6,804 million in 2011, primarily due to a 14% growth in broadband subscriber base.

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

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

*Smart Broadband* and *Sun Broadband Wireless*, SBI's and DMPI's broadband services, respectively, offer a number of wireless broadband services and had a total of 2,359,024 subscribers as at December 31, 2012, an increase of 290,615 subscribers, or 14%, as compared with 2,068,409 subscribers as at December 31, 2011, primarily due to an increase in DMPI's prepaid and postpaid broadband subscribers by 155,096 and 24,978, respectively, and an increase by 110,541, or 7%, in SBI's broadband subscribers as at December 31, 2012. Our prepaid wireless broadband subscribers by 125,096 and 24,978, respectively, and an increase by 110,541, or 7%, in SBI's broadband subscribers as at December 31, 2012. Our prepaid wireless broadband subscribers by 224,168 subscribers, or 16%, to 1,587,160 subscribers as at December 31, 2012 from 1,362,992 subscribers as at December 31, 2011, while our postpaid wireless broadband subscribers as at December 31, 2012 from 705,417 subscribers as at December 31, 2011.

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

Smart Broadband also offers mobile internet access through *SmartBro Plug-It*, a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity at varying speeds in places where there is Smart network coverage provided by either 3G HSPA, 4G HSPA+ or LTE technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. Smart Broadband also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. *SmartBro LTE* offers the latest broadband technology with speeds of up to 42 Mbps. *SmartBro LTE Plug-It* and *SmartBro LTE Plug-It* and prepaid variants. We also have an additional array of load packages that offer time period-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

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

#### Satellite and Other Services

Revenues from our satellite and other services decreased by Php51 million, or 3%, to Php1,569 million in 2012 from Php1,620 million in 2011, primarily due to the termination of wired and wireless leased line clients, a decrease in the number of ACeS Philippines' subscribers and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

#### Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php684 million, or 47%, to Php2,153 million in 2012 from Php1,469 million in 2011, primarily due to the increase in the combined average retail price and quantity of Smart's cellular handsets/SIM-packs issued for activation, as well as the increase in DMPI's non-service revenue contribution.

## Expenses

Expenses associated with our wireless business amounted to Php83,717 million in 2012, an increase of Php12,708 million, or 18%, from Php71,009 million in 2011. A significant portion of this increase was attributable to higher expenses related to depreciation and amortization, compensation and employee benefits, cost of sales, repairs and maintenance, selling and promotions, rent, amortization of intangible assets, professional and other contracted

services, partially offset by lower asset impairment, interconnection costs and other operating expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 72% and 69% in 2012 and 2011, respectively.

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

|  |                           |     |                           |     | Increase (Dec | rease) |
|--|---------------------------|-----|---------------------------|-----|---------------|--------|
|  | 2012 <sup>(1 and 2)</sup> | %   | 2011 <sup>(2 and 3)</sup> | %   | Amount        | %      |
|  |                           |     | (in million:              | s)  |               |        |
| Depreciation and amortization              | Php19,000                 | 23  | Php14,295                 | 20  | 4,705         | 33     |
| Rent                                       | 9,970                     | 12  | 8,223                     | 12  | 1,747         | 21     |
| Compensation and employee benefits         | 8,586                     | 10  | 5,248                     | 7   | 3,338         | 64     |
| Interconnection costs                      | 8,458                     | 10  | 9,604                     | 14  | (1,146)       | (12)   |
| Selling and promotions                     | 7,933                     | 10  | 6,144                     | 9   | 1,789         | 29     |
| Repairs and maintenance                    | 7,843                     | 9   | 5,643                     | 8   | 2,200         | 39     |
| Cost of sales                              | 7,373                     | 9   | 4,267                     | 6   | 3,106         | 73     |
| Asset impairment                           | 4,218                     | 5   | 9,197                     | 13  | (4,979)       | (54)   |
| Professional and other contracted services | 3,733                     | 4   | 3,164                     | 5   | 569           | 18     |
| Taxes and licenses                         | 2,410                     | 3   | 2,233                     | 3   | 177           | 8      |
| Communication, training and travel         | 1,430                     | 2   | 1,022                     | 1   | 408           | 40     |
| Insurance and security services            | 1,033                     | 1   | 847                       | 1   | 186           | 22     |
| Amortization of intangible assets          | 921                       | 1   | 108                       | -   | 813           | 753    |
| Other expenses                             | 809                       | 1   | 1,014                     | 1   | (205)         | (20)   |
| Total                                      | Php83,717                 | 100 | Php71,009                 | 100 | Php12,708     | 18     |

<sup>(1)</sup> Includes DMPI's expenses of Php21,485 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Includes DMPI's expenses of Php3,083 million for the period from October 26, 2011 to December 31, 2011.

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

Rent expenses increased by Php1,747 million, or 21%, to Php9,970 million primarily due to the increase in DMPI's rent expense by Php1,715 million, increase in site and office building rental and domestic fiber optic network, or DFON, charges, partially offset by a decrease in leased circuit and satellite rental charges. In the year ended December 31, 2012, we had 9,979 cell sites, 18,943 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations, as compared with 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 2,786 fixed wireless broadband-enabled base stations in 2011.

Compensation and employee benefits expenses increased by Php3,338 million, or 64%, to Php8,586 million primarily due to the increase in DMPI's compensation and employee benefit expense by Php1,677 million, as well as higher MRP costs, LTIP costs, salaries, employee benefits and provision for pension benefits. Employee headcount increased to 8,513 as at December 31, 2012 as compared with 8,043 as at December 31, 2011, primarily due to an increase in Smart's and DMPI's headcount by an aggregate of 470 as at December 31, 2012.

Interconnection costs decreased by Php1,146 million, or 12%, to Php8,458 million primarily due to a decrease in interconnection charges on international calls and roaming SMS.

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

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

Cost of sales increased by Php3,106 million, or 73%, to Php7,373 million primarily to the increase in DMPI's cost of sales by Php2,013 million and higher average cost and quantity of handsets and SIM-packs issued for activation purposes, partly offset by lower quantity and average cost of broadband modems sold, as well as lower broadband and cellular retention costs.

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

Professional and other contracted service fees increased by Php569 million, or 18%, to Php3,733 million primarily due to the increase in DMPI's professional and other contracted service fees by Php319 million, and the increase in call center, market research, consultancy, contracted service, outsourced service costs and legal fees, partly offset by lower technical service, corporate membership and bill printing fees.

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

Communication, training and travel expenses increased by Php408 million, or 40%, to Php1,430 million primarily due to the increase in DMPI's communication, training and travel expense by Php314 million, partially offset by a decrease in foreign travel, mailing and courier, and fuel consumption charges, partially offset by higher local training and travel.

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

Amortization of intangible assets increased by Php813 million, or 753%, to Php921 million primarily due to the amortization of intangible assets related to the customer list and franchise of DMPI.

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

## Other Income (Expenses)

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

|  |                           |                           | Change   |       |  |
|--|---------------------------|---------------------------|----------|-------|--|
|  | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount   | %     |  |
|  |                           | (in millions)             |          |       |  |
| Other Income (Expenses):                                 |                           |                           |          |       |  |
| Foreign exchange gains (losses) – net                    | Php2,419                  | (Php720)                  | Php3,139 | (436) |  |
| Interest income  | 565                       | 677                       | (112)    | (17)  |  |
| Gains (losses) on derivative financial instruments – net | (51)                      | (10)                      | (41)     | 410   |  |
| Equity share in net losses of associates                 | (78)                      | (115)                     | 37       | (32)  |  |
| Financing costs - net                                    | (2,683)                   | (2,744)                   | 61       | (2)   |  |
| Others   | 721                       | 1,178                     | (457)    | (39)  |  |
| Total  | Php893                    | (Php1,734)                | Php2,627 | (151) |  |

(1) Includes DMPI's other income of Php569 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

<sup>(3)</sup> Includes DMPI's other expenses – net of Php763 million for the period from October 26, 2011 to December 31, 2011.

Our wireless business' other income amounted to Php893 million in 2012, a change of Php2,627 million as against other expenses of Php1,734 million in 2011, primarily due to the combined effects of the following: (i) net foreign exchange gains of Php2,419 million in 2012 as against net foreign exchange losses of Php720 million in 2011 on account of revaluation of net foreign currency-denominated liabilities due to the appreciation of the Philippine peso to the U.S. dollar to Php41.08 as at December 31, 2012 from Php43.92 as at December 31, 2011, and the increase in DMPI's gains on revaluation of net dollar-denominated liabilities by Php2,057 million; (ii) lower net financing costs by Php61 million primarily due to increase in capitalized interest and Smart's decrease in interest expense mainly due to a lower average loan balance and interest rate, partly offset by the increase in DMPI's financing costs by Php633 million, and higher accretion on financial liabilities and financing charges; (iii) a decrease in other income by Php457 million mainly due to lower rental and other miscellaneous income, the decrease in DMPI's other income contribution by Php79 million, partially offset by higher net gain on fixed assets disposal and outsourcing income; (iv) a decrease in interest income by Php112 million mainly due to lower average short-term investments and lower average interest rates, as well as shorter average tenor of U.S. dollar and peso placements in 2012 and the appreciation of the Philippine peso to the U.S. dollar, partially offset by the increase in DMPI's interest income by Php30 million; (v) a decrease in equity share in net losses of associates by Php37 million; and (vi) higher net loss on derivative financial instruments by Php41 million in 2012 mainly due to the increase in DMPI's net loss on derivative financial instruments.

#### Provision for Income Tax

Provision for income tax decreased by Php335 million, or 4%, to Php8,094 million in 2012 from Php8,429 million in 2011 primarily due to the realization of foreign exchange loss on dollar denominated debt and accounts receivable written off, partially offset by the expiration of SBI's tax holiday in July 2011. The effective tax rate for our wireless business was 24% and 27% in 2012 and 2011, respectively.

## Net Income

As a result of the foregoing, our wireless business' net income increased by Php2,648 million, or 12%, to Php25,014 million in 2012 from Php22,366 million recorded in 2011.

## EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php953 million, or 2%, to Php54,480 million in 2012 from Php55,433 million in 2011.

#### Core Income

Our wireless business' core income decreased by Php4,209 million, or 14%, to Php25,694 million in 2012 from Php29,903 million in 2011 on account of an increase in wireless-related operating expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php537 million in 2012, partially offset by higher wireless revenues, a decrease in other expenses and lower provision for income tax.

## **Fixed Line**

#### Revenues

Revenues generated from our fixed line business amounted to Php60,246 million in 2012, an increase of Php1,956 million, or 3%, from Php58,290 million in 2011.

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

|  |                           |     |                           |     | Increase (De | crease) |
|--|---------------------------|-----|---------------------------|-----|--------------|---------|
|  | 2012 <sup>(1 and 2)</sup> | %   | 2011 <sup>(2 and 3)</sup> | %   | Amount       | %       |
|  |                           |     | (in million               | s)  |              |         |
| Service Revenues:                            |                           |     |                           |     |              |         |
| Local exchange                               | Php16,470                 | 27  | Php15,719                 | 27  | Php751       | 5       |
| International long distance                  | 10,789                    | 18  | 11,342                    | 19  | (553)        | (5)     |
| National long distance                       | 5,046                     | 8   | 5,537                     | 10  | (491)        | (9)     |
| Data and other network                       | 25,059                    | 42  | 22,544                    | 39  | 2,515        | 11      |
| Miscellaneous                                | 1,707                     | 3   | 1,954                     | 3   | (247)        | (13)    |
|  | 59,071                    | 98  | 57,096                    | 98  | 1,975        | 3       |
| Non-Service Revenues:                        |                           |     |                           |     |              |         |
| Sale of computers, phone units and SIM cards | 1,175                     | 2   | 1,194                     | 2   | (19)         | (2)     |
| Total Fixed Line Revenues                    | Php60,246                 | 100 | Php58,290                 | 100 | Php1,956     | 3       |

(1) Includes Diaitel's service revenues of Php3,190 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments. Includes Digitel's service revenues of Php683 million for the period from October 26, 2011 to December 31, 2011.

#### Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,975 million, or 3%, to Php59,071 million in 2012 from Php57,096 million in 2011 due to an increase in the revenue contribution of our data and other network, and local exchange services, partially offset by decreases in international and national long distance services, as well as miscellaneous services.

#### Local Exchange Service

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

|   |                           | Increase (Decrease)       |           |      |
|---|---------------------------|---------------------------|-----------|------|
|   | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount    | %    |
| Total local exchange service revenues (in millions) | Php16,470                 | Php15,719                 | Php751    | 5    |
| Number of fixed line subscribers                    | 2,063,794                 | 2,166,295                 | (102,501) | (5)  |
| Postpaid  | 1,997,671                 | 2,029,359                 | (31,688)  | (2)  |
| Prepaid   | 66,123                    | 136,936                   | (70,813)  | (52) |
| Number of fixed line employees                      | 7,546                     | 9,072                     | (1,526)   | (17) |
| Number of fixed line subscribers per employee       | 273                       | 239                       | 34        | 14   |

Includes Digitel's local exchange revenue contribution of Php989 million, subscriber base of 206,631 and employee count of 516 as at and for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Includes Digitel's local exchange revenue contribution of Php178 million, subscriber base of 296,395 and employee count of 1,586 for the period from October 26, 2011 to December 31, 2011.

Revenues from our local exchange service increased by Php751 million, or 5%, to Php16,470 million in 2012 from Php15,719 million in 2011, primarily due to the increase in Digitel's local exchange service revenue contribution by Php811 million and the increase in postpaid wired and *PLP* lines, partially offset by a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and a decrease in installation charges. The percentage contribution of local exchange revenues to our total fixed line service revenues was 28% in each of 2012 and 2011.

#### International Long Distance Service

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

|  |                           |                           |          | ease) |
|--|---------------------------|---------------------------|----------|-------|
|  | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount   | %     |
| Total international long distance service revenues (in millions)   | Php10,789                 | Php11,342                 | (Php553) | (5)   |
| Inbound  | 9,455                     | 10,195                    | (740)    | (7)   |
| Outbound   | 1,334                     | 1,147                     | 187      | 16    |
| International call volumes (in million minutes, except call ratio) | 2,150                     | 2,029                     | 121      | 6     |
| Inbound  | 1,691                     | 1,767                     | (76)     | (4)   |
| Outbound   | 459                       | 262                       | 197      | 75    |
| Inbound-outbound call ratio  | 3.7:1                     | 6.7:1                     | -        | -     |

<sup>(1)</sup> Includes Digitel's international long distance service revenue contribution of Php683 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
 Includes Digitel's international long distance service revenue contribution of Php234 million for the period from October 26, 2011 to December 31, 2011.

Our total international long distance service revenues decreased by Php553 million, or 5%, to Php10,789 million in 2012 from Php11,342 million in 2011 primarily due to the decrease in PLDT's call volumes, the decrease in average collection and settlement rates 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, partially offset by increases in Digitel's international long distance service revenue contribution by Php449 million and call volumes by 290 million minutes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 18% and 20% in 2012 and 2011, respectively.

Our revenues from inbound international long distance service decreased by Php740 million, or 7%, to Php9,455 million in 2012 from Php10,195 million in 2011 primarily due to the decrease in inbound call volumes, as well as the unfavorable effect on our inbound revenues of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and the decrease in the average settlement rate in dollar terms, partially offset by an increase in Digitel's inbound international long distance service revenue contribution by Php117 million and inbound call volumes by 13 million minutes.

Our revenues from outbound international long distance service increased by Php187 million, or 16%, to Php1,334 million in 2012 from Php1,147 million in 2011, primarily due to an increase in Digitel's revenue contribution from outbound international long distance service by Php332 million, partially offset by the decrease in PLDT's outbound call volumes, the decrease in the 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 Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, resulting in a decrease in the average billing rate to Php42.45 in 2012 from Php43.34 in 2011.

Our total international long distance service revenues, net of interconnection costs, decreased by Php466 million, or 9%, to Php4,607 million in 2012 from Php5,073 million in 2011. The decrease was primarily due to the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar, lower net average settlement and collection rates in dollar terms, and the decrease in inbound call volumes, partly offset by an increase in outbound call volumes.

#### National Long Distance Service

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

|   |                           |                           | Decreas  | e    |
|---|---------------------------|---------------------------|----------|------|
|   | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount   | %    |
| Total national long distance service revenues (in millions) | Php5,046                  | Php5,537                  | (Php491) | (9)  |
| National long distance call volumes (in million minutes)    | 971                       | 1,126                     | (155)    | (14) |

(1) Includes Digitel's national long distance service revenue contribution of Php279 million and call volume of 39 million minutes for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Includes Digital's national long distance service revenue contribution of Php50 million and call volume of 10 million minutes for the period from October 26, 2011 to December 31, 2011.

Our national long distance service revenues decreased by Php491 million, or 9%, to Php5,046 million in 2012 from Php5,537 million in 2011, primarily due to a decrease in call volumes, partially offset by an increase in Digitel's national long distance service revenue contribution by Php229 million and an increase in the average revenue per minute of our national long distance services due to the cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues was 9% and 10% in 2012 and 2011, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Php294 million, or 7%, to Php3,903 million in 2012 from Php4,197 million in 2011, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

#### Data and Other Network Services

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

|   |                           | Increase                  |          |    |
|---|---------------------------|---------------------------|----------|----|
|   | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount   | %  |
| Data and other network service revenues (in millions) | Php25,059                 | Php22,544                 | Php2,515 | 11 |
| Domestic  | 18,436                    | 16,404                    | 2,032    | 12 |
| Broadband   | 11,246                    | 9,517                     | 1,729    | 18 |
| Leased Lines and Others                               | 7,190                     | 6,887                     | 303      | 4  |
| International   |                           |                           |          |    |
| Leased Lines and Others                               | 5,524                     | 5,229                     | 295      | 6  |
| Data Centers  | 1,099                     | 911                       | 188      | 21 |
| Subscriber base                                       |                           |                           |          |    |
| Broadband   | 887,399                   | 842,273                   | 45,126   | 5  |
| SWUP  | 22,720                    | 20,153                    | 2,567    | 13 |

(1) Includes Digitel's data and other network service revenue contribution of Php1,239 million for the full year 2012 and DSL subscribers of 74,921 as at December 31, 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
 Includes Digitel's data and other network service revenue contribution of Php221 million for the period from October 26, 2011 to December 31, 2011 and DSL subscribers of 99, 367as at December 31, 2011.

Our data and other network services posted revenues of Php25,059 million in 2012, an increase of Php2,515 million, or 11%, from Php22,544 million in 2011, primarily due to higher revenues from *PLDT DSL*, the increase in Digitel's data and other network service revenue contribution by Php1,018 million, an increase in domestic leased line revenues resulting from the higher revenue contribution of internet protocol-virtual private network, or IP-VPN, and Metro Ethernet, and an increase in international data revenues primarily due to higher revenues from i-Gate and inland cable lease. The percentage contribution of this service segment to our fixed line service revenues was 42% and 39% in 2012 and 2011, respectively.

#### Domestic

Domestic data services contributed Php18,436 million in 2012, an increase of Php2,032 million, or 12%, as compared with Php16,404 million in 2011 mainly due to higher DSL, Fibr and Metro Ethernet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services was 74% and 73% in 2012 and 2011, respectively.

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## Broadband

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches, and *Fibr*, our most advanced broadband internet connection, which is intended for individual internet users.

Broadband data revenues amounted to Php11,246 million in 2012, an increase of Php1,729 million, or 18%, from Php9,517 million in 2011 as a result of the increase in the number of subscribers by 45,126, or 5%, to 887,399 subscribers, including Digitel's DSL subscriber base of 74,921, as at December 31, 2012, from 842,273 subscribers, which includes Digitel's subscriber base of 99,367, as at December 31, 2011. Broadband revenues accounted for 45% and 42% of total data and other network service revenues in 2012 and 2011, respectively.

## Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2012, *SWUP* had a total subscriber base of 22,720 up by 2,567, or 13%, from 20,153 subscribers in 2011. Leased lines and other data revenues amounted to Php7,190 million in 2012, an increase of Php303 million, or 4%, from Php6,887 million in 2011, primarily due to higher revenues from IP-VPN, internet exchange, Metro Ethernet and *Shops.Work* revenues, 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 were 29% and 31% in 2012 and 2011, respectively.

## International

## Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, which provide data networking services to multinational companies. International data service revenues increased by Php295 million, or 6%, to Php5,524 million in 2012 from Php5,229 million in 2011, primarily due to higher i-Gate revenues and an increase in revenues from various global service providers, partially offset by lower Fibernet revenues, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues was 22% and 23% in 2012 and 2011, respectively.

#### Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Data center revenues increased by Php188 million, or 21%, to Php1,099 million in 2012 from Php911 million in 2011 mainly due to higher co-location and managed services as a result of the consolidation of IPCDSI in October 2012. The percentage contribution of this service segment to our total data and other network service revenues was 4% in each of 2012 and 2011.

## 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 Php247 million, or 13%, to Php1,707 million in 2012 from Php1,954 million 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, 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), higher revenue contribution of PGNL, which is the exclusive distributor and licensee of the programs, shows, films and channels of TV5 abroad, the distribution of which is via syndication and international linear channels, and higher rental and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2012 and 2011.

### Non-service Revenues

Non-service revenues decreased by Php19 million, or 2%, to Php1,175 million in 2012 from Php1,194 million in 2011, primarily due to lower computer-bundled sales and several managed PABX and *OnCall* solutions, partially offset by higher revenues from *Telpad* units.

#### Expenses

Expenses related to our fixed line business totaled Php52,776 million in 2012, an increase of Php3,602 million, or 7%, as compared with Php49,174 million in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, rent, cost of sales, selling and promotions, depreciation and amortization, and asset impairment, partly offset by lower expenses related to interconnection costs, taxes and licenses, professional and other contracted services, and amortization of intangible assets. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 88% and 84% in 2012 and 2011, respectively.

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

|  |                           |     |                           |      | Increase (Dec | rease) |
|--|---------------------------|-----|---------------------------|------|---------------|--------|
|  | 2012 <sup>(1 and 2)</sup> | %   | 2011 <sup>(2 and 3)</sup> | %    | Amount        | %      |
|  |                           |     | (in millio                | ins) |               |        |
| Compensation and employee benefits         | Php13,439                 | 26  | Php10,177                 | 21   | Php3,262      | 32     |
| Depreciation and amortization              | 13,354                    | 25  | 13,244                    | 27   | 110           | 1      |
| Interconnection costs                      | 7,623                     | 15  | 8,099                     | 17   | (476)         | (6)    |
| Repairs and maintenance                    | 5,325                     | 10  | 4,992                     | 10   | 333           | 7      |
| Professional and other contracted services | 3,296                     | 6   | 3,363                     | 7    | (67)          | (2)    |
| Rent                                       | 2,374                     | 5   | 2,164                     | 4    | 210           | 10     |
| Cost of sales                              | 1,374                     | 3   | 1,177                     | 2    | 197           | 17     |
| Selling and promotions                     | 1,786                     | 3   | 1,664                     | 3    | 122           | 7      |
| Taxes and licenses                         | 1,097                     | 2   | 1,319                     | 3    | (222)         | (17)   |
| Asset impairment                           | 1,068                     | 2   | 1,003                     | 2    | 65            | 6      |
| Communication, training and travel         | 752                       | 1   | 741                       | 2    | 11            | 1      |
| Insurance and security services            | 632                       | 1   | 576                       | 1    | 56            | 10     |
| Amortization of intangible assets          | -                         | -   | 9                         | -    | (9)           | (100)  |
| Other expenses                             | 656                       | 1   | 646                       | 1    | 10            | 2      |
| Total                                      | Php52,776                 | 100 | Php49,174                 | 100  | Php3,602      | 7      |

(1) Includes Digitel's expenses of Php2,897 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

<sup>(3)</sup> Includes Digitel's expenses of Php715 million for the period from October 26, 2011 to December 31, 2011.

Compensation and employee benefits expenses increased by Php3,262 million, or 32%, to Php13,439 million primarily due to higher MRP costs, net of the retroactive adjustment of the application of the Revised PAS 19 of Php750 million in 2012, salaries and employee benefits, LTIP costs, as well as the increase in Digitel's contribution to compensation and employee benefits expense by Php603 million, partially offset by lower provision for pension costs. Employee headcount decreased to 10,462 in 2012 as compared with 11,409 in 2011 mainly due to a decrease in PLDT's and Digitel's headcounts as a result of the MRP, partially offset by an increase in the number of employee headcount of iPlus.

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

Interconnection costs decreased by Php476 million, or 6%, to Php7,623 million primarily due to 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 increase in Digitel's contribution to interconnection costs by Php294 million.

Repairs and maintenance expenses increased by Php333 million, or 7%, to Php5,325 million primarily due to the increase in Digitel's contribution to repairs and maintenance expense by Php385 million, higher repairs and maintenance costs for buildings, IT software, and office electricity cost, partially offset by lower repairs and maintenance costs on central office/telecoms equipment, site fuel consumption, and vehicles, furnitures and other

work equipment.

Professional and other contracted service expenses decreased by Php67 million, or 2%, to Php3,296 million primarily due to lower consultancy and bill printing fees, partially offset by higher contracted service, transfer agents', technical service, collection agency, and other professional fees, as well as the increase in Digitel's contribution to professional and other contracted fees by Php144 million.

Rent expenses increased by Php210 million, or 10%, to Php2,374 million primarily due to the increase in Digitel's contribution to rent expense by Php103 million, as well as higher international leased circuits, and site rental charges, partially offset by lower domestic leased circuit, office building and equipment rental charges.

Cost of sales increased by Php197 million, or 17%, to Php1,374 million primarily due to the increase in Digitel's contribution to cost of sales by Php32 million and an increase in the sale of Telpad units, partially offset by lower sales of several managed PABX and OnCall solutions, and PLP units.

Selling and promotion expenses increased by Php122 million, or 7%, to Php1,786 million primarily due to the increase in Digitel's contribution to selling and promotions expense by Php11 million, as well as higher advertising expenses, partially offset by lower public relations and commissions expense.

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

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

Communication, training and travel expenses increased by Php11 million, or 1%, to Php752 million mainly due to higher local training and travel, and the increase in Digitel's contribution to communication, training and travel expense by Php36 million, partially offset by a decrease in foreign travel, mailing and courier, and fuel consumption charges.

Insurance and security services increased by Php56 million, or 10%, to Php632 million primarily higher office security services, and the increase in Digitel's contribution to insurance and security expense by Php43 million, partially offset by lower expenses insurance and bond premiums.

Amortization of intangible assets amounted to Php9 million in 2011 relating to the amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI in 2011.

Other expenses increased by Php10 million, or 2%, to Php656 million primarily due to the increase in Digitel's contribution to other expense by Php12 million, partially offset by lower various business and operational-related expenses.

### Other Expenses

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

|  |                           |                           | Change     | 9     |
|--|---------------------------|---------------------------|------------|-------|
|  | 2012 <sup>(1 and 2)</sup> | 2011 <sup>(2 and 3)</sup> | Amount     | %     |
|  |                           | (in mill                  | ions)      |       |
| Other Income (Expenses):                                 |                           |                           |            |       |
| Gains (losses) on derivative financial instruments – net | (Php1,958)                | Php211                    | (Php2,169) | 1,028 |
| Interest income  | 713                       | 590                       | 123        | 21    |
| Equity share in net earnings (losses) of associates      | 108                       | 307                       | (199)      | (65)  |
| Foreign exchange gains – net                             | 863                       | (15)                      | 878        | 5,853 |
| Financing costs – net                                    | (4,193)                   | (3,710)                   | (483)      | 13    |
| Others   | 2,686                     | 1,651                     | 1,035      | 63    |
| Total  | (Php1,781)                | (Php966)                  | (Php815)   | 84    |

Includes Digitel's other income of Php438 million for the full year 2012.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion. Includes Digitel's other expenses of Php178 million for the period from October 26, 2011 to December 31, 2011.

Our fixed line business' other expenses amounted to Php1,781 million in 2012, increased by Php815 million, or 84%, from Php966 million in 2011. The increase was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php1,958 million in 2012 as against net gains on derivative financial instruments of Php211 million in 2011 due to the effect of narrower dollar and peso interest rate differentials and higher level of appreciation of the Philippine peso to the U.S. dollar; (ii) an increase in net financing costs by Php483 million due to higher interest expense on loans and related items, financing charges and an increase in Digitel's financing costs by Php8 million; (iii) decrease in equity share in net earnings of associates and joint ventures by Php199 million mainly due to the disposal of investment in Philweb; (iv) an increase in interest income by Php123 million due to a higher principal amount of placements and an increase in Digitel's contribution to interest income by Php27 million, partially offset by lower average interest rates, shorter average tenor of placements, and the impact of the appreciation of the Philippine peso on dollar placements; (v) foreign exchange gains of Php863 million in 2012 as against foreign exchange losses of Php15 million and on account of foreign exchange revaluation of foreign currency-denominated assets and liabilities due to the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar; and (vi) an increase in other income by Php1,035 million mainly due to the gain on the first and second tranches of disposal of Philweb shares and higher reversal of prior year provisions, partially offset by lower gain on sale of investments, lower gain on disposal of fixed assets and lower income from consultancy.

# Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php51 million in 2012, a change of Php2,354 million, or 102%, as against a provision for income tax of Php2,303 million in 2011, primarily due to lower taxable income. The effective tax rate for our fixed line business was negative 1% in 2012 and 28% in 2011.

# Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,740 million in 2012, decreased by Php107 million, or 2%, as compared with Php5,847 million in 2011.

# EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php2,293 million, or 10%, to Php20,089 million in 2012 from Php22,382 million in 2011.

# Core Income

Our fixed line business' core income increased by Php459 million, or 9%, to Php5,769 million in 2012 from Php5,310 million in 2011, primarily as a result of higher fixed line revenues and a benefit from income tax, partially offset by higher fixed line expenses, excluding the retroactive effect of the application of the Revised PAS 19 in our MRP costs of Php750 million in 2012, and an increase in other expenses.

# Others

## Expenses

Expenses associated with our other business segment totaled Php18 million in 2012, an increase of Php7 million, or 64%, as compared with Php11 million in 2011, primarily due to PCEV's higher other operating expenses.

#### Other Income

The following table summarizes the breakdown of other income for other business segment for the years ended December 31, 2012 and 2011:

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

Other income increased by Php2,360 million, or 118%, to Php4,358 million in 2012 from Php1,998 million in 2011 primarily due to the combined effects of the following: (i) an increase in other income by Php2,709 million mainly due to the realized portion of deferred gain on the transfer of Meralco shares to Beacon of Php2,012 million and preferred dividends from Beacon of Php720 million; (ii) a decrease in interest income by Php14 million as a result of lower average level of temporary cash investments by our PCEV business; and (iii) a decrease in equity share in net

earnings of associates by Php335 million mainly due to the decrease in PCEV's indirect share in the net earnings of Meralco.

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

# Net Income

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

# EBITDA

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

# Core Income

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

# Years Ended December 31, 2011 and 2010

# On a Consolidated Basis

#### Revenues

We reported consolidated revenues of Php148,479 million in 2011, a decrease of Php2,335 million, or 2%, as compared with Php150,814 million in 2010, primarily due to lower revenues from national long distance and local exchange services from our fixed line business, and satellite and other services from our wireless business, partially offset by higher revenues from data and other network, international long distance and miscellaneous services from our fixed line business, and broadband revenues from our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2011 and 2010:

|                            |                           | Chang |                     |     |            |     |  |  |  |
|----------------------------|---------------------------|-------|---------------------|-----|------------|-----|--|--|--|
|                            | 2011 <sup>(1 and 2)</sup> | %     | 2010 <sup>(2)</sup> | %   | Amount     | %   |  |  |  |
|                            |                           |       | (in millions        | s)  |            |     |  |  |  |
| Wireless                   | Php103,538                | 70    | Php105,381          | 70  | (Php1,843) | (2) |  |  |  |
| Fixed line                 | 58,290                    | 39    | 58,905              | 39  | (615)      | (1) |  |  |  |
| Inter-segment transactions | (13,349)                  | (9)   | (13,472)            | (9) | 123        | (1) |  |  |  |
| Consolidated               | Php148,479                | 100   | Php150,814          | 100 | (Php2,335) | (2) |  |  |  |

(1) Includes the Digitel Group's revenue contribution of Php3,845 million for the period from October 26, 2011 to December 31, 2011.

# <sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments

# Expenses

Consolidated expenses increased by Php11,137 million, or 12%, to Php106,424 million in 2011 from Php95,287 million in 2010, as a result of higher expenses related to asset impairment, selling and promotions, depreciation and amortization, taxes and licenses, repairs and maintenance, professional and other contracted services, and cost of sales, partially offset by lower expenses related to compensation and employee benefits, interconnection costs and amortization of intangible assets.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2011 and 2010:

|                            | 2011 <sup>(1 and 2)</sup> | %    | 2010 <sup>(2)</sup> | %    | Amount    | %    |  |  |  |
|----------------------------|---------------------------|------|---------------------|------|-----------|------|--|--|--|
|                            |                           |      | (in million         | IS)  |           |      |  |  |  |
| Wireless                   | Php71,009                 | 67   | Php59,773           | 63   | Php11,236 | 19   |  |  |  |
| Fixed line                 | 49,174                    | 46   | 49,545              | 52   | (371)     | (1)  |  |  |  |
| Others                     | 11                        | -    | 19                  | -    | (8)       | (42) |  |  |  |
| Inter-segment transactions | (13,770)                  | (13) | (14,050)            | (15) | 280       | (2)  |  |  |  |
| Consolidated               | Php106,424                | 100  | Php95,287           | 100  | Php11,137 | 12   |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's expenses of Php3,785 million for the period from October 26, 2011 to December 31, 2011.

<sup>(a)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

# Other Income (Expenses)

Consolidated other expenses amounted to Php970 million in 2011, which includes other expenses from the Digitel Group of Php941 million for the period from October 26, 2011 to December 31, 2011, decreased by Php934 million from Php1,904 million in 2010, primarily due to the combined effects of the following: (i) foreign exchange losses of Php735 million in 2011 as against foreign exchange gains of Php1,850 million in 2010 mainly due to the revaluation of foreign-currency denominated assets and liabilities as a result of the effect of the depreciation of the Philippine peso to the U.S. dollar; (ii) an increase in other income by Php697 million mainly due to the reversal of prior year's accrual of long-term incentive plan, or LTIP, pension benefit income recognized by PLDT and net gain on sale of investments in Level Up! and Digital Paradise, partly offset by lower net gain on disposal of fixed assets of Php741 million in 2011; (iii) higher interest income by Php177 million due to a higher average level of peso and dollar shortterm investments, higher average peso and dollar interest rates and the impact of the depreciation of the Philippine peso on dollar placements; (iv) a decrease in net financing costs by Php76 million mainly due to lower interest on loans and other related items on account of lower average interest rates and, partially offset by higher average level of loan balances by our fixed line and wireless businesses and lower capitalized interest by our wireless business; (v) an increase in equity share in net earnings of associates and joint ventures by Php627 million; and (vi) net gains on derivative financial instruments of Php201 million in 2011 as against net losses on derivative financial instruments of Php1,741 million in 2010 due to the effect of wider U.S. dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in 2011.

The following table shows the breakdown of our consolidated other income (expenses) by business segment for the years ended December 31, 2011 and 2010:

|                            |                           |       |                     |      | Chang      | e    |
|----------------------------|---------------------------|-------|---------------------|------|------------|------|
|                            | 2011 <sup>(1 and 2)</sup> | %     | 2010 <sup>(2)</sup> | %    | Amount     | %    |
|                            |                           |       | (in millio          | ins) |            |      |
| Wireless                   | (Php1,734)                | 179   | (Php177)            | 9    | (Php1,557) | 880  |
| Fixed line                 | (966)                     | 99    | (2,743)             | 144  | 1,777      | (65) |
| Others                     | 1,998                     | (206) | 1,371               | (72) | 627        | 46   |
| Inter-segment transactions | (268)                     | 28    | (355)               | 19   | 87         | (25) |
| Consolidated               | (Php970)                  | 100   | (Php1,904)          | 100  | Php934     | (49) |

(1) Includes the Digitel Group's other expenses of Php941 million for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

#### Net Income

Consolidated net income decreased by Php8,607 million, or 22%, to Php31,218 million in 2011, from Php39,825 million in 2010. The increase was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php2,335 million; (ii) higher income from discontinued operations of Php1,356 million; (iii) a decrease in consolidated provision for income tax by Php2,575 million, which was mainly due to lower taxable income of our wireless and other businesses; (iv) an increase in consolidated expenses by Php11,137 million; and (v) a decrease in consolidated other expense – net by Php934 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php161.05 and Php160.91, respectively, in 2011 from consolidated basic and diluted EPS of Php210.53 in 2010. Our weighted average number of outstanding common shares was approximately 191.37 million and 186.79 million in the years ended December 31, 2011 and 2010, respectively.

The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2011 and 2010:

|                            | 2011 <sup>(1 and 2)</sup> | %   | 2010 <sup>(2)</sup> | %    | Amount      | %     |  |  |  |
|----------------------------|---------------------------|-----|---------------------|------|-------------|-------|--|--|--|
|                            |                           |     | (in milli           | ons) |             |       |  |  |  |
| Wireless                   | Php22,366                 | 72  | Php34,020           | 85   | (Php11,654) | (34)  |  |  |  |
| Fixed line                 | 5,847                     | 19  | 4,720               | 12   | 1,127       | 24    |  |  |  |
| Others                     | 1,985                     | 6   | 1,351               | 3    | 634         | 47    |  |  |  |
| Inter-segment transactions | 153                       |     | 223                 | 1    | (70)        | (31)  |  |  |  |
| Continuing operations      | 30,351                    | 97  | 40,314              | 101  | (9,963)     | (25)  |  |  |  |
| Discontinued operations    | 867                       | 3   | (489)               | (1)  | 1,356       | (277) |  |  |  |
| Consolidated               | Php31,218                 | 100 | Php39,825           | 100  | (Php8,607)  | (22)  |  |  |  |

<sup>(1)</sup> Includes the Digitel Group's net loss of Php606 million for the period from October 26, 2011 to December 31, 2011.

(2) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

# EBITDA

Our consolidated EBITDA from continuing operations, amounted to Php78,225 million in 2011, a decrease of Php3,824 million, or 5%, as compared with Php82,049 million in 2010, primarily due to lower consolidated revenues, lower operating expenses related to compensation and employee benefits, and lower interconnection costs, partially offset by higher expenses driven by asset impairment, selling and promotions, taxes and licenses, repairs and maintenance, professional and other contracted services, cost of sales, and insurance and security services.

The following table shows the breakdown of our consolidated EBITDA from continuing operations by business segment for the years ended December 31, 2011 and 2010:

|                            |                           | Chang |                     |     |            |      |  |  |  |  |
|----------------------------|---------------------------|-------|---------------------|-----|------------|------|--|--|--|--|
|                            | 2011 <sup>(1 and 2)</sup> | %     | 2010 <sup>(2)</sup> | %   | Amount     | %    |  |  |  |  |
|                            |                           |       | (in millior         | IS) |            |      |  |  |  |  |
| Wireless                   | Php55,433                 | 71    | Php58,998           | 72  | (Php3,565) | (6)  |  |  |  |  |
| Fixed line                 | 22,382                    | 29    | 22,492              | 27  | (110)      | -    |  |  |  |  |
| Others                     | (11)                      | -     | (19)                | -   | 8          | (42) |  |  |  |  |
| Inter-segment transactions | 421                       | -     | 578                 | 1   | (157)      | (27) |  |  |  |  |
| Continuing operations      | Php78,225                 | 100   | Php82,049           | 100 | (Php3,824) | (5)  |  |  |  |  |

(1) Includes the Digitel Group's EBITDA of Php1,056 million for the period from October 26, 2011 to December 31, 2011.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

# Core Income

Our consolidated core income, including core income from discontinued operations, amounted to Php38,616 million in 2011, a decrease of Php2,978 million, or 7%, as compared with Php41,594 million in 2010, primarily due to an increase in consolidated expenses, partially offset by an increase in consolidated revenues and lower provision for income tax. Our consolidated basic and diluted core EPS, including basic and diluted core EPS from discontinued operations, increased to Php199.39 and Php199.22, respectively, in 2011 from Php220.23 in 2010.

The following table shows the breakdown of our consolidated core income by business segment for the years ended December 31, 2011 and 2010:

|                            | 2011 <sup>(1 and 2)</sup> | %             | 2010 <sup>(2)</sup> | %   | Amount     | %    |  |  |  |
|----------------------------|---------------------------|---------------|---------------------|-----|------------|------|--|--|--|
|                            |                           | (in millions) |                     |     |            |      |  |  |  |
| Wireless                   | Php29,903                 | 77            | Php33,347           | 80  | (Php3,444) | (10) |  |  |  |
| Fixed line                 | 5,310                     | 14            | 5,420               | 13  | (110)      | (2)  |  |  |  |
| Others                     | 2,461                     | 6             | 2,066               | 5   | 395        | 19   |  |  |  |
| Inter-segment transactions | 153                       | 1             | 223                 | 1   | (70)       | (31) |  |  |  |
| Continuing operations      | 37,827                    | 98            | 41,056              | 99  | (3,229)    | (8)  |  |  |  |
| Discontinued operations    | 789                       | 2             | 538                 | 1   | 251        | 47   |  |  |  |
| Consolidated               | Php38,616                 | 100           | Php41,594           | 100 | (Php2,978) | (7)  |  |  |  |

(1) Includes the Digitel Group's negative core income of Php9 million for the period from October 26, 2011 to December 31, 2011.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

# On a Business Segment Basis

# Wireless

#### Revenues

We generated revenues from our wireless business of Php103,538 million in 2011, a decrease of Php1,843 million, or 2%, from Php105,381 million in 2010.

The following table summarizes our total revenues from our wireless business for the years ended December 31, 2011 and 2010 by service segment:

|  |                     |     |               |     | Increase (De | crease) |
|--|---------------------|-----|---------------|-----|--------------|---------|
|  | 2011 <sup>(1)</sup> | %   | 2010          | %   | Amount       | %       |
|  |                     |     | (in millions) |     |              |         |
| Service Revenues:  |                     |     |               |     |              |         |
| Cellular   | Php93,645           | 90  | Php95,520     | 91  | (Php1,875)   | (2)     |
| Wireless broadband, and satellite and others                     |                     |     |               |     |              |         |
| Wireless broadband   | 6,804               | 7   | 6,287         | 6   | 517          | 8       |
| Satellite and others   | 1,620               | 2   | 2,217         | 2   | (597)        | (27     |
|  | 102,069             | 99  | 104,024       | 99  | (1,955)      | (2      |
| Non-Service Revenues:  |                     |     |               |     |              |         |
| Sale of cellular handsets, cellular SIM-packs and broadband data |                     |     |               |     |              |         |
| modems   | 1,469               | 1   | 1,357         | 1   | 112          | 8       |
| tal Wireless Revenues  | Php103,538          | 100 | Php105,381    | 100 | (Php1,843)   | (2      |

<sup>(1)</sup> Includes DMPI's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011 and as adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

#### Service Revenues

Our wireless service revenues decreased by Php1,955 million, or 2%, to Php102,069 million in 2011, as compared with Php104,024 million in 2010, mainly as a result of lower revenues from our cellular, and satellite and other services. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international calls, as well as from domestic text messaging services on the back of pervasive multiple SIM card ownership, increased utilization of unlimited offers and increasing patronage of social networking sites, partially offset by the effect of the inclusion of DMPI's service revenues for the period from October 26, 2011 to December 31, 2011, an increase in international short messaging service, or SMS, as well as higher VAS revenues, mainly from internet-based VAS and *Pasa Load*. Our dollar-linked revenues were negatively affected by the appreciation of the Philippine peso relative to the U.S. dollar, which decreased to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, monthly cellular ARPUs, for 2011 were lower as compared with 2010. As a percentage of our total wireless revenues, service revenues amounted to 99% in each of 2011 and 2010.

### Cellular Service

Our cellular service revenues in 2011 amounted to Php93,645 million, a decrease of Php1,875 million, or 2%, from Php95,520 million in 2010. Cellular service revenues accounted for 92% of our wireless service revenues in 2011 and 2010.

The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2011 and 2010:

|                           |                            |              | Increase (Deci | rease) |
|---------------------------|----------------------------|--------------|----------------|--------|
|                           | <b>2011</b> <sup>(1)</sup> | 2010         | Amount         | %      |
|                           |                            | (in million: | s)             |        |
| Cellular service revenues | Php93,645                  | Php95,520    | (Php1,875)     | (2)    |
| By service type           | 91,119                     | 92,914       | (1,795)        | (2)    |
| Prepaid                   | 81,649                     | 84,385       | (2,736)        | (3)    |
| Postpaid                  | 9,470                      | 8,529        | 941            | 11     |
| By component              | 91,119                     | 92,914       | (1,795)        | (2)    |
| Voice                     | 43,884                     | 45,678       | (1,794)        | (4)    |
| Data                      | 47,235                     | 47,236       | (1)            | -      |
| Others <sup>(2)</sup>     | 2,526                      | 2,606        | (80)           | (3)    |

Includes DMPI's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011 and as adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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

The following table shows our other key measures of our cellular business as at and for the years ended December 31, 2011 and 2010:

|  |                            |            | Increase (Decre | ase) |
|--|----------------------------|------------|-----------------|------|
|  | <b>2011</b> <sup>(1)</sup> | 2010       | Amount          | %    |
| Cellular subscriber base                 | 63,696,629                 | 45,636,008 | 18,060,621      | 40   |
| Prepaid                                  | 61,792,792                 | 45,214,433 | 16,578,359      | 37   |
| Smart Prepaid                            | 28,011,521                 | 26,247,052 | 1,764,469       | 5    |
| Talk 'N Text                             | 20,467,175                 | 18,967,381 | 1,499,794       | 8    |
| Sun Cellular <sup>(2)</sup>              | 13,314,096                 | -          | 13,314,096      | -    |
| Postpaid                                 | 1,903,837                  | 421,575    | 1,482,262       | 352  |
| Smart                                    | 550,748                    | 421,575    | 129,173         | 31   |
| Sun Cellular <sup>(2)</sup>              | 1,353,089                  | =          | 1,353,089       | -    |
| Systemwide traffic volumes (in millions) |                            |            |                 |      |
| Calls (in minutes)                       | 44.192                     | 26.813     | 17.379          | 65   |
| Domestic                                 | 41,107                     | 23,787     | 17,320          | 73   |
| Inbound                                  | 1,350                      | 1,437      | (87)            | (6)  |
| Outbound                                 | 39,757                     | 22,350     | 17,407          | 78   |
| International                            | 3,085                      | 3,026      | 59              | 2    |
| Inbound                                  | 2,862                      | 2,817      | 45              | 2    |
| Outbound                                 | 223                        | 209        | 14              | 7    |
| SMS/Data count (in hits)                 | 354.135                    | 341.113    | 13.022          | 4    |
| Text messages                            | 351,502                    | 339,530    | 11,972          | 4    |
| Domestic                                 | 350,858                    | 339,011    | 11,847          | 3    |
| Bucket-Priced/Unlimited                  | 322,588                    | 312,634    | 9,954           | 3    |
| Standard                                 | 28,270                     | 26,377     | 1,893           | 7    |
| International                            | 644                        | 519        | 125             | 24   |
| Value-Added Services                     | 2,596                      | 1,557      | 1,039           | 67   |
| Financial Services                       | 37                         | 26         | 11              | 42   |

(1) Includes DMPI's minutes of 2,681 million minutes and 10,471 million for the period from October 26, 2011 to December 31, 2011 and as adjusted to reflect certain

presentation adjustments to conform with the current presentation of our business segments. <sup>21</sup> Sun Cellular brand and its subscribers were acquired by PLDT upon acquisition of a controlling interest in Digitel on October 26, 2011. Sun Cellular operates through DMPI, a wholly-owned subsidiary of the Digitel Group.

Revenues generated from our prepaid cellular services amounted to Php81,649 million in 2011, a decrease of Php2,736 million, or 3%, as compared with Php84,385 million in 2010. Prepaid cellular service revenues accounted for 90% and 91% of cellular voice and data revenues in 2011 and 2010, respectively. Revenues generated from postpaid cellular service amounted to Php9,470 million in 2011, an increase of Php941 million, or 11%, as compared with Php8,529 million earned in 2010, and which accounted for 10% and 9% of cellular voice and data revenues in 2011 and 2010, respectively. The decrease in revenues from our prepaid cellular services was primarily due to a decline in revenues from domestic and international calls, as well as domestic SMS, partially offset by an increase in VAS revenues, mainly from internet-based VAS and *Pasa Load*, and the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011.

#### Voice Services

Cellular revenues from our voice services, which include all voice traffic and voice VAS, such as voice mail and outbound international roaming, decreased by Php1,794 million, or 4%, to Php43,884 million in 2011 from Php45,678 million in 2010, primarily due to a decrease in domestic and international call revenues, partially offset by

the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Cellular voice services were 47% and 48% of our cellular service revenues in 2011 and 2010, respectively.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2011 and 2010:

|                 |                            |               | Decrease   |      |
|-----------------|----------------------------|---------------|------------|------|
|                 | <b>2011</b> <sup>(1)</sup> | 2010          | Amount     | %    |
|                 |                            | (in millions) |            |      |
| Voice services: |                            |               |            |      |
| Domestic        |                            |               |            |      |
| Inbound         | Php4,963                   | Php5,203      | (Php240)   | (5)  |
| Outbound        | 22,441                     | 22,807        | (366)      | (2)  |
|                 | 27,404                     | 28,010        | (606)      | (2)  |
| International   |                            |               |            |      |
| Inbound         | 13,906                     | 14,738        | (832)      | (6)  |
| Outbound        | 2,574                      | 2,930         | (356)      | (12) |
|                 | 16,480                     | 17,668        | (1,188)    | (7)  |
| Total           | Php43,884                  | Php45,678     | (Php1,794) | (4   |

<sup>(1)</sup> Includes DMPI's cellular voice revenues of Php1,537 million for the period from October 26, 2011 to December 31, 2011 and as adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Domestic voice service revenues decreased by Php606 million, or 2%, to Php27,404 million in 2011 from Php28,010 million in 2010, primarily due to a decrease in domestic outbound call revenues by Php366 million, or 2%, to Php22,441 million in 2011 from Php22,807 million in 2010 mainly due to higher traffic volumes of unlimited calls at lower yield. In addition, revenues from our domestic inbound voice service decreased by Php240 million, or 5%, to Php4,963 million in 2011 from Php5,203 million in 2010 as a result of a decrease in inbound call traffic from domestic fixed line and mobile carriers. Domestic outbound call volumes increased by 17,407 million minutes, or 78%, to 39,757 million minutes in 2011 from 22,350 million minutes in 2010, while domestic inbound call volumes decreased by 87 million minutes, or 6%, to 1,350 million minutes in 2011 from 1,437 million minutes in 2010. The overall increase in domestic call traffic for the period from October 26, 2011 to December 31, 2011.

International voice service revenues decreased by Php1,188 million, or 7%, to Php16,480 million in 2011 from Php17,668 million in 2010, with a decline in international inbound voice service revenues by Php832 million, or 6%, to Php13,906 million in 2011 from Php14,738 million in 2010, as well as a decline in international outbound voice service revenues by Php356 million, or 12%, to Php2,574 million in 2011 from Php2,930 million in 2010. The decline in international voice service revenues was primarily due to a reduction in inbound termination rates, as well as the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, partially offset by the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Conversely, international inbound and outbound calls totaled 3,085 million minutes in 2011, an increase of 59 million minutes, or 2%, from 3,026 million minutes in 2010 mainly due to an increase in our cellular subscriber base.

# Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php1 million to Php47,235 million in 2011 from Php47,236 million in 2010, primarily due to a decrease in text messaging revenues, partially offset by the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011. Cellular data services accounted for 50% and 49% of our cellular service revenues in 2011 and 2010, respectively.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2011 and 2010:

|                                      |                            |              | Increase (Deci | rease) |
|--------------------------------------|----------------------------|--------------|----------------|--------|
|                                      | <b>2011</b> <sup>(1)</sup> | 2010         | Amount         | %      |
|                                      |                            | (in millions | 5)             |        |
| Text messaging                       |                            |              |                |        |
| Domestic                             | Php40,096                  | Php41,070    | (Php974)       | (2)    |
| Bucket-Priced/Unlimited              | 23,164                     | 23,836       | (672)          | (3)    |
| Standard                             | 16,932                     | 17,234       | (302)          | (2)    |
| International                        | 3,612                      | 3,534        | 78             | 2      |
|                                      | 43,708                     | 44,604       | (896)          | (2)    |
| Value-added services                 |                            |              |                |        |
| Internet-based <sup>(2)</sup>        | 1,707                      | 858          | 849            | 99     |
| Pasa Load/Give-a-load <sup>(3)</sup> | 664                        | 483          | 181            | 37     |
| SMS-based <sup>(4)</sup>             | 652                        | 684          | (32)           | (5)    |
| MMS-based <sup>(5)</sup>             | 458                        | 568          | (110)          | (19)   |
|                                      | 3,481                      | 2,593        | 888            | 34     |
| Financial services                   | 46                         | 39           | 7              | 18     |
| Total                                | Php47,235                  | Php47,236    | (Php1)         | -      |

(1) Includes DMPI's cellular data service revenues of Php1,220 million for the period from October 26, 2011 to December 31, 2011 and as adjusted to reflect certain

presentation adjustments to conform with the current presentation of our business segments. Includes revenues from web-based services such as mobile internet browsing, video streaming and Uzzap, net of allocated discounts and content provider costs. Uzzap is

an IP-based messaging service that allows instant messaging, email, SMS, group messages, chatting, etc.
 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.

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

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

Text messaging-related services contributed revenues of Php43,708 million in 2011, a decrease of Php896 million, or 2%, as compared with Php44,604 million in 2010, and accounted for 93% and 94% of our total cellular data service revenues in 2011 and 2010, respectively. The decrease in revenues from text messaging-related services resulted mainly from declining SMS yields. Another factor that contributed to this decline in revenues is the availability of alternative means of communication through social media sites. Text messaging revenues from the various bucket-priced/unlimited plans totaled Php23,164 million in 2011, a decrease of Php672 million, or 3%, as compared with Php23,836 million in 2010, primarily as a result of lower yields. Standard text messaging revenues decreased by Php302 million, or 2%, to Php16,932 million in 2011 from Php17,234 million in 2010, primarily as a result of decreased usage. On the other hand, the increase in international text messaging revenues was mainly due to the growth in international inbound SMS traffic and a higher average yield per international inbound SMS.

Bucket-priced/unlimited text message usage increased by 9,954 million, or 3%, to 322,588 million in 2011 from 312,634 million in 2010 mainly due to DMPI's contribution of 8,235 million bucket-priced/unlimited text messages for the period from October 26, 2011 to December 31, 2011. Standard text message usage also increased by 1,893 million, or 7%, to 28,270 million in 2011 from 26,377 million in 2010 mainly due to DMPI's contribution of 1,352 million standard text messages for the period from October 26, 2011 to December 26, 2011 to December 31, 2010 mainly due to DMPI's contribution of 1,352 million standard text messages for the period from October 26, 2011 to December 31, 2011.

VAS contributed revenues of Php3,481 million in 2011, an increase of Php888 million, or 34%, as compared with Php2,593 million in 2010, primarily due to an increase in revenues from internet-based VAS, which increased by Php849 million, or 99%, to Php1,707 million in 2011 from Php858 million in 2010, and *Pasa Load/Give-a-load* by Php181 million, or 37%, to Php664 million in 2011 from Php483 million in 2010.

# Subscriber Base, ARPU and Churn Rates

As at December 31, 2011, our cellular subscribers totaled 63,696,629, an increase of 18,060,621, or 40%, over their combined cellular subscriber base of 45,636,008 as at December 31, 2010. Our cellular prepaid subscriber base grew by 16,578,359, or 37%, to 61,792,792 as at December 31, 2011 from 45,214,433 as at December 31, 2010, and our cellular postpaid subscriber base increased by 1,482,262, or 352%, to 1,903,837 as at December 31, 2011 from 421,575 as at December 31, 2010. The significant increase in subscriber base was primarily due to the inclusion of DMPI's prepaid and postpaid subscribers of 13,314,096 and 1,353,089, respectively, as at December 31, 2011. Prepaid subscribers accounted for 97% and 99% of our total subscriber base as at December 31, 2011 and 2010, respectively.

Our net subscriber activations for the years ended December 31, 2011 and 2010 were as follows:

|               |           |           | Increase (Decre | ase)  |
|---------------|-----------|-----------|-----------------|-------|
|               | 2011      | 2010      | Amount          | %     |
| Prepaid       | 3,264,263 | 4,321,335 | (1,057,072)     | (24)  |
| Smart Prepaid | 1,764,469 | 2,404,667 | (640,198)       | (27)  |
| Talk 'N Text  | 1,499,794 | 1,916,668 | (416,874)       | (22)  |
| Postpaid      | 129,173   | (13,968)  | 143,141         | 1,025 |
| Smart         | 129,173   | (13,968)  | 143,141         | 1,025 |
| Total         | 3,393,436 | 4,307,367 | (913,931)       | (21)  |

Our quarterly net subscriber activations (reductions) over the eight quarters in 2011 and 2010 were as follows:

|                          |                      | 2011                        |                             |                             |                        | 2010                   |                                    |                             |  |
|--------------------------|----------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|------------------------|------------------------------------|-----------------------------|--|
|                          | 1Q                   | 2Q                          | 3Q                          | 4Q                          | 1Q                     | 2Q                     | 3Q                                 | 4Q                          |  |
| Prepaid<br>Smart Prepaid | 1,011,692<br>578,535 | 1,178,072<br><i>801,112</i> | (144,404)<br><i>110.411</i> | 1,218,903<br><i>274.411</i> | 1,868,812<br>1,473,828 | 2,144,244<br>1,581,869 | (1,212,389)<br><i>(1,341,17</i> 5) | 1,520,668<br><i>690,145</i> |  |
| Talk 'N Text             | 433,157              | 376,960                     | (254,815)                   | 944,492                     | 394,984                | 562,375                | 128,786                            | 830,523                     |  |
| Postpaid                 | 8,985                | (224)                       | 46,832                      | 73,580                      | 9,870                  | (5,569)                | (21,266)                           | 2,997                       |  |
| Smart                    | 8,985                | (224)                       | 46,832                      | 73,580                      | 9,870                  | (5,569)                | (21,266)                           | 2,997                       |  |
| Total                    | 1,020,677            | 1,177,848                   | (97,572)                    | 1,292,483                   | 1,878,682              | 2,138,675              | (1,233,655)                        | 1,523,665                   |  |

Prepaid and postpaid subscribers reflected net activations of 3,264,263 and 129,173 subscribers, respectively, in 2011 as compared with net activations of 4,321,335 and net reductions of 13,968 in 2010. *Sun Cellular's* prepaid and postpaid subscribers reflected net activations of 338,759 and 49,697 subscribers, respectively, for the period from October 26, 2011 to December 31, 2011, which are not included in the net subscriber activations presented in the table above.

For *Smart Prepaid* subscribers, the average monthly churn rate in 2011 and 2010 were 5.1% and 5.0%, respectively, while the average monthly churn rate for *Talk 'N Text* subscribers were 5.5% and 5.3% in 2011 and 2010, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 2.1% and 2.4% for 2011 and 2010, respectively.

The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2011 and 2010:

|                | Gro     | Gross <sup>(1)</sup> |         | Increase (Decrease) |                     | et <sup>(2)</sup> | Increase (Decrease) |      |
|----------------|---------|----------------------|---------|---------------------|---------------------|-------------------|---------------------|------|
|                | 2011(3) | 2010                 | Amount  | %                   | 2011 <sup>(3)</sup> | 2010              | Amount              | %    |
| Prepaid        |         |                      |         |                     |                     |                   |                     |      |
| Smart Prepaid  | Php190  | Php220               | (Php30) | (14)                | Php166              | Php193            | (Php27)             | (14) |
| Talk 'N Text   | 124     | 139                  | (15)    | (11)                | 109                 | 122               | (13)                | (11) |
| Postpaid       |         |                      |         |                     |                     |                   |                     |      |
| Smart Postpaid | 1,548   | 1,678                | (130)   | (8)                 | 1,510               | 1,638             | (128)               | (8)  |

Sun Cellular's average monthly cellular ARPUs for the period from October 26, 2011 to December 31, 2011 were as follows:

|                             | Gross <sup>(1)</sup> | Net <sup>(2)</sup> |
|-----------------------------|----------------------|--------------------|
| Sun Cellular <sup>(4)</sup> |                      |                    |
| Prepaid<br>Postpaid         | Php75                | Php65              |
| Postpaid                    | 450                  | 447                |

(i) 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.

Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, by the average number of subscribers in the month. Net monthly ARPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues.
A sadjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

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

Our average monthly prepaid and postpaid ARPUs per quarter in 2011 and 2010 were as follows:

|                            |                      | Prepaid            |                      |                    |                      |                    |
|----------------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|
|                            | Smart I              | Prepaid            | Tall                 | k 'N Text          |                      | Smart              |
|                            | Gross <sup>(1)</sup> | Net <sup>(2)</sup> | Gross <sup>(1)</sup> | Net <sup>(2)</sup> | Gross <sup>(1)</sup> | Net <sup>(2)</sup> |
| <b>2011</b> <sup>(3)</sup> |                      |                    |                      |                    |                      |                    |
| First Quarter              | Php198               | Php174             | Php129               | Php113             | Php1,610             | Php1,557           |
| Second Quarter             | 196                  | 172                | 126                  | 111                | 1,637                | 1,575              |
| Third Quarter              | 180                  | 158                | 117                  | 103                | 1,493                | 1,429              |
| Fourth Quarter             | 185                  | 159                | 124                  | 109                | 1,451                | 1,480              |
| 2010                       |                      |                    |                      |                    |                      |                    |
| First Quarter              | 232                  | 204                | 140                  | 122                | 1,686                | 1,666              |
| Second Quarter             | 224                  | 197                | 141                  | 123                | 1,665                | 1,627              |
| Third Quarter              | 207                  | 181                | 135                  | 118                | 1,661                | 1,614              |
| Fourth Quarter             | 215                  | 189                | 140                  | 123                | 1,702                | 1,646              |

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

Net monthly APPU is calculated based on the average of the net monthly APPUs for the quarter. Net monthly APPUs in 2010 have been restated to reflect the change in the presentation of our outbound revenues, as discussed in Note 2 – Summary of Significant Accounting Policies to the accompanying audited consolidated financial statements.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

#### Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, 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 Php517 million, or 8%, to Php6,804 million in 2011 from Php6,287 million in 2010, primarily due to the 53% growth in broadband subscriber base and as a result of the inclusion of DMPI's revenues for the period from October 26, 2011 to December 31, 2011 of Php290 million, partially offset by a decline in ARPU.

The following table shows information of our wireless broadband subscriber base for the years ended December 31, 2011 and 2010:

|                                |           |           | Increase |     |  |
|--------------------------------|-----------|-----------|----------|-----|--|
|                                | 2011      | 2010      | Amount   | %   |  |
| Wireless Broadband Subscribers | 2,068,409 | 1,355,977 | 712,432  | 53  |  |
| Prepaid                        | 1,362,992 | 925,220   | 437,772  | 47  |  |
| Smart Broadband                | 1,162,020 | 925,220   | 236,800  | 26  |  |
| Sun Broadband                  | 200,972   | -         | 200,972  | 100 |  |
| Postpaid                       | 705,417   | 430,757   | 274,660  | 64  |  |
| Smart Broadband                | 454,333   | 430,757   | 23,576   | 5   |  |
| Sun Broadband                  | 251,084   | -         | 251,084  | 100 |  |

SBI and *Sun Broadband Wireless*, DMPI's broadband service, offer a number of wireless broadband services and had a total of 2,068,409 subscribers as at December 31, 2011, an increase of 712,432 subscribers, or 53%, as compared with 1,355,977 subscribers as at December 31, 2010, primarily due to the inclusion of DMPI's prepaid and postpaid broadband subscribers of 200,972 and 251,084, respectively, as at December 31, 2011. Our postpaid wireless broadband subscriber base increased by 274,660 subscribers, or 64%, to 705,417 subscribers as

at December 31, 2011 from 430,757 subscribers as at December 31, 2010, while our prepaid wireless broadband subscriber base increased by 437,772 subscribers, or 47%, to 1,362,992 subscribers as at December 31, 2011 from 925,220 subscribers as at December 31, 2010.

#### Satellite and Other Services

Revenues from our satellite and other services decreased by Php597 million, or 27%, to Php1,620 million in 2011 from Php2,217 million in 2010, primarily due to the sale of Mabuhay Satellite's transponders on July 1, 2010 and the effect of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues.

#### Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues increased by Php112 million, or 8%, to Php1,469 million in 2011 as compared with Php1,357 million in 2010, primarily due to the effect of the inclusion of DMPI's nonservice revenues of Php86 million for the period from October 26, 2011 to December 31, 2011, as well as the increase in cellular handset/SIM-pack activations, partially offset by a lower quantity of broadband data modems sold.

### Expenses

Expenses associated with our wireless business amounted to Php71,009 million in 2011, an increase of Php11,236 million, or 19%, from Php59,773 million in 2010. A significant portion of this increase was attributable to higher expenses related to asset impairment, selling and promotions, depreciation and amortization, cost of sales, repairs and maintenance, and taxes and licenses, partially offset by lower compensation and employee benefits, rent, interconnection costs and amortization of intangible assets. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 69% and 57% in 2011 and 2010, respectively.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item in relation to the total:

|   |                           |     |                     |     | Increase (De | crease) |
|---|---------------------------|-----|---------------------|-----|--------------|---------|
|   | 2011 <sup>(1 and 2)</sup> | %   | 2010 <sup>(2)</sup> | %   | Amount       | %       |
|   |                           |     | (in millior         | IS) |              |         |
| Depreciation and amortization                     | Php14,295                 | 20  | Php13,243           | 22  | Php1,052     | 8       |
| Interconnection costs                             | 9,604                     | 14  | 10,194              | 17  | (590)        | (6)     |
| Asset impairment                                  | 9,197                     | 13  | 824                 | 1   | 8,373        | 1,016   |
| Rent  | 8,223                     | 12  | 9,009               | 15  | (786)        | (9)     |
| Selling and promotions                            | 6,144                     | 9   | 3,809               | 6   | 2,335        | 61      |
| Compensation and employee benefits <sup>(3)</sup> | 5,248                     | 7   | 6,392               | 11  | (1,144)      | (18)    |
| Repairs and maintenance                           | 5,643                     | 8   | 5,058               | 9   | 585          | 12      |
| Cost of sales                                     | 4,267                     | 6   | 3,587               | 6   | 680          | 19      |
| Professional and other contracted services        | 3,164                     | 5   | 3,092               | 5   | 72           | 2       |
| Taxes and licenses                                | 2,233                     | 3   | 1,681               | 3   | 552          | 33      |
| Communication, training and travel                | 1,022                     | 1   | 946                 | 2   | 76           | 8       |
| Insurance and security services                   | 847                       | 1   | 831                 | 1   | 16           | 2       |
| Amortization of intangible assets                 | 108                       | -   | 134                 | -   | (26)         | (19)    |
| Other expenses                                    | 1,014                     | 1   | 973                 | 2   | 41           | 4       |
| Total   | Php71,009                 | 100 | Php59,773           | 100 | Php11,236    | 19      |

Includes DMPI's expenses of Php3,083 million for the period from October 26, 2011 to December 31, 2011.

As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments. Includes salaries and employee benefits, LTIP, pension and MRP costs.

Depreciation and amortization charges increased by Php1,052 million, or 8%, to Php14,295 million on account of higher depreciation charges on cellular network facilities, business and operations support systems and the inclusion of DMPI's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011.

Interconnection costs decreased by Php590 million, or 6%, to Php9,604 million primarily due to an increase in interoperator rebates and a decrease in interconnection charges for domestic and international calls and roaming SMS, partially offset by the inclusion of DMPI's interconnection costs for the period from October 26, 2011 to December 31, 2011.

Asset impairment increased by Php8.373 million to Php9.197 million primarily due to impairment charges on certain network equipment and facilities covered by the network modernization program undertaken by Smart and higher provision for inventory obsolescence, partly offset by lower provision for uncollectible receivables.

Rent expenses decreased by Php786 million, or 9%, to Php8,223 million primarily due to lower domestic fiber optic network, or DFON, charges as a result of lower rental rates and a decrease in satellite and building rental, partially offset by the increase in cell site, leased line and pole charges and the inclusion of DMPI's rent expenses for the period from October 26, 2011 to December 31, 2011. In 2011, we had 10,482 cell sites, 14,879 cellular/mobile broadband base stations and 2,786 fixed wireless broadband-enabled base stations, as compared with 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations in 2010.

Selling and promotion expenses increased by Php2,335 million, or 61%, to Php6,144 million primarily due to the inclusion of DMPI's selling and promotions expense for the period from October 26, 2011 to December 31, 2011 and higher spending on advertising and promotional campaigns, commissions and public relations expenses.

Compensation and employee benefits expenses decreased by Php1,144 million, or 18%, to Php5,248 million primarily due to lower MRP costs, as well as LTIP costs and salaries employee benefits, partially offset by the inclusion of DMPI's compensation and employee benefit expenses for the period from October 26, 2011 to December 31, 2011 and higher provision for pension benefits. Employee headcount increased to 8,043 as at December 31, 2011 as compared with 5,165 as at December 31, 2010, primarily due to the inclusion of DMPI's headcount of 3,206 as at December 31, 2011.

Repairs and maintenance expenses increased by Php585 million, or 12%, to Php5,643 million mainly due to the inclusion of DMPI's repairs and maintenance expense for the period from October 26, 2011 to December 31, 2011, higher electricity and fuel costs for power generation, as well as higher expenses related to computer hardware and other work equipment, partly offset by lower maintenance charges for cellular and broadband network facilities, and computer software.

Cost of sales increased by Php680 million, or 19%, to Php4,267 million primarily due to the inclusion of DMPI's cost of sales for the period from October 26, 2011 to December 31, 2011 and higher cellular activation and broadband retention cost, partly offset by lower quantity and average cost of broadband modems sold.

Professional and other contracted service fees increased by Php72 million, or 2%, to Php3,164 million primarily due to the increase in consultancy, contracted service, outsourced service, and market research fees, and the inclusion of DMPI's professional and other contracted service fees for the period from October 26, 2011 to December 31, 2011, partly offset by lower management, customer relationship management service, technical and legal services, and other professional service fees.

Taxes and licenses increased by Php552 million, or 33%, to Php2,233 million primarily due to higher businessrelated taxes and the inclusion of DMPI's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Communication, training and travel expenses increased by Php76 million, or 8%, to Php1,022 million primarily due to higher courier charges, travel expenses, fuel consumption for vehicles, and the inclusion of DMPI's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 partially offset by lower communication, training, and freight and hauling expenses.

Insurance and security services increased by Php16 million, or 2%, to Php847 million primarily due to higher site security expense, and the inclusion of DMPI's insurance and security expenses for the period from October 26, 2011 to December 31, 2011, partially offset by lower insurance premiums.

Amortization of intangible assets decreased by Php26 million, or 19%, to Php108 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka in 2010.

Other expenses increased by Php41 million, or 4%, to Php1,014 million primarily due to higher various business and operational-related expenses and the inclusion of DMPI's other operational expenses for the period from October 26, 2011 to December 31, 2011.

# Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2011 and 2010:

|  | 2011 <sup>(1 and 2)</sup> |                     | Change     |       |
|--|---------------------------|---------------------|------------|-------|
|  |                           | 2010 <sup>(2)</sup> | Amount     | %     |
|  |                           | (in millions)       |            |       |
| Other Income (Expenses):                                 |                           |                     |            |       |
| Interest income  | Php677                    | Php551              | Php126     | 23    |
| Gains (losses) on derivative financial instruments – net | (10)                      | 3                   | (13)       | (433) |
| Equity share in net losses of associates                 | (115)                     | (7)                 | (108)      | 1,543 |
| Foreign exchange gains (losses) – net                    | (720)                     | 888                 | (1,608)    | (181) |
| Financing costs – net                                    | (2,744)                   | (2,681)             | (63)       | 2     |
| Others   | 1,178                     | 1,069               | 109        | 10    |
| otal   | (Php1,734)                | (Php177)            | (Php1,557) | 880   |

<sup>(1)</sup> Includes DMPI's other expenses of Php763 million for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our wireless business' other expenses amounted to Php1,734 million in 2011, a change of Php1,557 million from Php177 million in 2010, primarily due to the combined effects of the following: (i) net foreign exchange losses of Php720 million in 2011 as against net foreign exchange gains of Php888 million in 2010 on account of revaluation of foreign currency-denominated assets and liabilities due to the inclusion of losses on revaluation of dollar-denominated net liabilities of DMPI for the period from October 26, 2011 to December 31, 2011, and lower level of appreciation of the Philippine peso to the U.S. dollar; (ii) increase in equity share in net losses of associates by Php108 million; (iii) higher net financing costs by Php63 million primarily due to higher accretion on financial liabilities and financing charges, and a decrease in capitalized interest, partly offset by lower interest on loans and other related items on account of Smart's lower average level of loan balances, and lower average level of peso and dollar short-term investments and a higher average interest rate in 2011; and (v) an increase in other income by Php109 million mainly due to reversal of prior year's accrual of LTIP, partially offset by lower rental and consultancy income, and lower gains on disposal of fixed assets and insurance claims.

# Provision for Income Tax

Provision for income tax decreased by Php2,982 million, or 26%, to Php8,429 million in 2011 from Php11,411 million in 2010 primarily due to lower taxable income and increased savings from the use of the optional standard deduction method in computing taxable income. The effective tax rate for our wireless business was 27% and 25% in 2011 and 2010, respectively.

# Net Income

As a result of the foregoing, our wireless business' net income decreased by Php11,654 million, or 34%, to Php22,366 million in 2011 from Php34,020 million recorded in 2010.

# EBITDA

As a result of the foregoing, our wireless business' EBITDA decreased by Php3,565 million, or 6%, to Php55,433 million in 2011 from Php58,998 million in 2010.

# Core Income

Our wireless business' core income decreased by Php3,444 million, or 10%, to Php29,903 million in 2011 from Php33,347 million in 2010 on account of an increase in other expenses and higher wireless-related operating expenses, partially offset by an increase in wireless revenues and a decrease in provision for income tax.

# **Fixed Line**

# Revenues

Revenues generated from our fixed line business amounted to Php58,290 million in 2011, a decrease of Php615 million, or 1%, from Php58,905 million in 2010.

The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2011 and 2010 by service segment:

|  |                           |     |                     |     | Increase (Dec | rease) |
|--|---------------------------|-----|---------------------|-----|---------------|--------|
|  | 2011 <sup>(1 and 2)</sup> | %   | 2010 <sup>(2)</sup> | %   | Amount        | %      |
|  |                           |     | (in million         | IS) |               |        |
| Service Revenues:                            |                           |     |                     |     |               |        |
| Local exchange                               | Php15,719                 | 27  | Php15,839           | 27  | (Php120)      | (1)    |
| International long distance                  | 11,342                    | 19  | 11,274              | 19  | 68            | 1      |
| National long distance                       | 5,537                     | 10  | 6,627               | 11  | (1,090)       | (16)   |
| Data and other network                       | 22,544                    | 39  | 21,461              | 36  | 1,083         | 5      |
| Miscellaneous                                | 1,954                     | 3   | 2,787               | 5   | (833)         | (30)   |
|  | 57,096                    | 98  | 57,988              | 98  | (892)         | (2)    |
| Non-Service Revenues:                        |                           |     |                     |     |               |        |
| Sale of computers, phone units and SIM cards | 1,194                     | 2   | 917                 | 2   | 277           | 30     |
| Total Fixed Line Revenues                    | Php58,290                 | 100 | Php58,905           | 100 | (Php615)      | (1     |

Includes the Digitel's service revenues of Php683 million for the period from October 26, 2011 to December 31, 2011.
 As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

#### Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php892 million, or 2%, to Php57,096 million in 2011 from Php57,988 million in 2010 due to decreases in national long distance, miscellaneous and local exchange services, partially offset by an increase in the revenue contribution of our data and other network, and international long distance services.

### Local Exchange Service

The following table summarizes the key measures of our local exchange service business as at and for the years ended December 31, 2011 and 2010:

|   |                           |                     | Increase (Dec | rease) |
|---|---------------------------|---------------------|---------------|--------|
|   | 2011 <sup>(1 and 2)</sup> | 2010 <sup>(2)</sup> | Amount        | %      |
| Total local exchange service revenues (in millions) | Php15,719                 | Php15,839           | (Php120)      | (1)    |
| Number of fixed line subscribers                    | 2,166,295                 | 1,822,105           | 344,190       | 19     |
| Postpaid  | 2,029,359                 | 1,703,998           | 325,361       | 19     |
| Prepaid   | 136,936                   | 118,107             | 18,829        | 16     |
| Number of fixed line employees                      | 9,072                     | 7,395               | 1,677         | 23     |
| Number of fixed line subscribers per employee       | 239                       | 246                 | (7)           | (3)    |

Includes Digitel's local exchange revenue contribution of Php178 million, subscriber base of 296,395 and employee count of 1,586 for the period from October 26, 2011 to

December 31, 2011 As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Revenues from our local exchange service decreased by Php120 million, or 1%, to Php15,719 million in 2011 from Php15,839 million in 2010, primarily due to the decrease in ARPU on account of lower fixed rates due to the increase in demand for bundled voice and data services and a decrease in installation charges, partially offset by an increase in postpaid wired and PLP lines and the effect of the inclusion of Digitel's revenues for the period from October 26, 2011 to December 31, 2011. PLP wireless service allows subscribers to bring the telephone set anywhere within the home zone area and is available on 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. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 28% and 27% in 2011 and 2010, respectively.

#### International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2011 and 2010:

|  |                           |                     | Increase (Deci | rease) |
|--|---------------------------|---------------------|----------------|--------|
|  | 2011 <sup>(1 and 2)</sup> | 2010 <sup>(2)</sup> | Amount         | %      |
| Total international long distance service revenues (in millions)   | Php11,342                 | Php11,274           | Php68          | 1      |
| Inbound  | 10,195                    | 9,859               | 336            | 3      |
| Outbound   | 1,147                     | 1,415               | (268)          | (19)   |
| International call volumes (in million minutes, except call ratio) | 2,029                     | 1,822               | 207            | 11     |
| Inbound  | 1,767                     | 1,516               | 251            | 17     |
| Outbound   | 262                       | 306                 | (44)           | (14)   |
| Inbound-outbound call ratio  | 6.7:1                     | 5.0:1               | -              | -      |

(1) Includes Digitel's international long distance service revenue contribution of Php234 million for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our total international long distance service revenues increased by Php68 million, or 1%, to Php11,342 million in 2011 from Php11,274 million in 2010, primarily due to the increase in inbound call traffic volumes, partially offset by the decrease in inbound average settlement and outbound collection rates in dollar terms, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010 and the decrease in outbound call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 19% in each of 2011 and 2010.

Our revenues from inbound international long distance service increased by Php336 million, or 3%, to Php10,195 million in 2011 from Php9,859 million in 2010 primarily due to an increase in inbound call volumes, as well as the inclusion of Digitel's inbound international long distance service revenues of Php229 million for the period from October 26, 2011 to December 31, 2011, partially offset by the decrease in the average settlement rate in dollar terms and 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.

Our revenues from outbound international long distance service decreased by Php268 million, or 19%, to Php1,147 million in 2011 from Php1,415 million in 2010, primarily due to the decline in outbound call volumes, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php43.31 for the year ended December 31, 2011 from Php45.12 for the year ended December 31, 2010, resulting in a decrease in the average billing rates to Php43.34 in 2011 from Php45.31 in 2010 and decrease in average collection rate in dollar terms.

Our total international long distance service revenues, net of interconnection costs, decreased by Php153 million, or 3%, to Php5,073 million in 2011 from Php5,226 million in 2010. The decrease was primarily due to lower inbound net average settlement rate in dollar terms on account of higher interconnection costs, the unfavorable effect of lower weighted average exchange rate of the Philippine peso to the U.S. dollar and the decrease in outbound call volumes, partly offset by an increase in inbound call volumes and higher outbound net average collection rate in dollar terms.

#### National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2011 and 2010:

|   |                           |                     | Decreas             | е            |
|---|---------------------------|---------------------|---------------------|--------------|
|   | 2011 <sup>(1 and 2)</sup> | 2010 <sup>(2)</sup> | Amount              | %            |
| Total national long distance service revenues (in millions)<br>National long distance call volumes (in million minutes) | Php5,537<br>1,126         | Php6,627<br>1,368   | (Php1,090)<br>(242) | (16)<br>(18) |

(I) Includes Digitel's national long distance service revenue contribution of Php50 million and call volumes of 10 million minutes for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our national long distance service revenues decreased by Php1,090 million, or 16%, to Php5,537 million in 2011 from Php6,627 million in 2010, primarily due to a decrease in call volumes, partially offset by the inclusion of Digitel's national long distance service revenues for the period from October 26, 2011 to December 31, 2011 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 10% and 11% in 2011 and 2010, respectively.

Our national long distance service revenues, net of interconnection costs, decreased by Ph634 million, or 13%, to Php4,197 million in 2011 from Php4,831 million in 2010, primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute of our national long distance services.

#### Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2011 and 2010:

|   |                           |                     | Increase |     |  |
|---|---------------------------|---------------------|----------|-----|--|
|   | 2011 <sup>(1 and 2)</sup> | 2010 <sup>(2)</sup> | Amount   | %   |  |
| Data and other network service revenues (in millions) | Php22,544                 | Php21,461           | Php1,083 | 5   |  |
| Domestic  | 16,404                    | 15,472              | 932      | 6   |  |
| Broadband   | 9,517                     | 8,222               | 1,295    | 16  |  |
| Leased Lines and Others                               | 6,887                     | 7,250               | (363)    | (5) |  |
| International   |                           |                     |          |     |  |
| Leased Lines and Others                               | 5,229                     | 5,282               | (53)     | (1) |  |
| Data Centers  | 911                       | 707                 | 204      | 29  |  |
| Subscriber base                                       |                           |                     |          |     |  |
| Broadband   | 842,273                   | 643,048             | 199.225  | 31  |  |
| SWUP  | 20,153                    | 15,641              | 4,512    | 29  |  |

<sup>(1)</sup> Includes Digitel's data and other network service revenue contribution of Php221 million and DSL subscribers of 99,367 for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.

Our data and other network services posted revenues of Php22,544 million in 2011, an increase of Php1,083 million, or 5%, from Php21,461 million in 2010, primarily due to higher revenues from *PLDT DSL*, data centers, and higher revenue contributions of IP-VPN, Metro Ethernet and Fibernet, partially offset by lower i-Gate and Diginet revenues. The percentage contribution of this service segment to our fixed line service revenues was 39% and 37% in 2011 and 2010, respectively.

### Domestic

Domestic data services contributed Php16,404 million in 2011, an increase of Php932 million, or 6%, as compared with Php15,472 million in 2010 mainly due to higher DSL, Fibr and Metro Ethernet revenues, and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower Diginet revenues. The percentage contribution of domestic data service revenues to total data and other network services was 73% and 72% in 2011 and 2010, respectively.

### Broadband

Broadband data services include *DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporations with multiple branches.

Broadband data revenue was Php9,517 million in 2011, including Digitel's broadband data revenues of Php132 million for the period from October 26, 2011 to December 31, 2011, an increase of Php1,295 million, or 16%, from Php8,222 million in 2010, primarily due to the higher revenue contribution of DSL as a result of the increase in the number of subscribers by 31% to 842,273 subscribers as at December 31, 2011 from 643,048 subscribers in 2010, including Digitel's DSL subscriber base of 99,367 as at December 31, 2011. DSL revenues were 42% and 38% of total data and other network service revenues in 2011 and 2010, respectively.

#### Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at December 31, 2011, *SWUP* has a total subscriber base of 20,153 up by 29% from 15,641 subscribers in 2010. Leased lines and other data revenues amounted to Php6,887 million in 2011, a decrease of Php363 million, or 5%, from Php7,250 million in 2010, primarily due to a decrease in Diginet revenues, partially offset by the inclusion of Digitel's leased line data revenues of Php83 million for the period from October 26, 2011 to December 31, 2011, and higher revenues from IP-VPN and *Shops.Work*. The percentage contribution of leased lines and other data service revenues to the total data and other network services was 31% and 34% in 2011 and 2010, respectively.

#### International

### Leased Lines and Others

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable bilateral point-to-point private networking connectivity, through the use of our extensive international alliances to offshore and outsourcing, banking and finance, and semiconductor industries; and (3) other international managed data services in partnership with other global service providers, which provide data networking services to multinational companies. International data service revenues decreased by Php53 million, or 1%, to Php5,229 million in 2011 from Php5,282 million in 2010, primarily resulting from the termination of transponder sub-lease agreements with customers, a decrease in revenues from i-Gate and various global service providers, and the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar, partially offset by growth in international managed data services, higher Fibernet revenues, and the effect of the inclusion of Digitel's international leased line data revenues of Php6 million for the period from October 26, 2011 to December 31, 2011. The percentage contribution of international data service revenues to total data and other network service revenues was 23% and 25% in 2011 and 2010, respectively.

#### Data Centers

Data centers provide co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Revenues from this service increased by Php204 million, or 29%, to Php911 million in 2011 from Php707 million in 2010 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 Php833 million, or 30%, to Php1,954 million in 2011 from Php2,787 million in 2010 mainly due to a decrease in internet and online gaming revenues as a result of the disposal of investments in Digital Paradise and Level Up!, as well as lower rental and facilities management fees, and directory advertising, 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), and 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. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% and 5% in 2011 and 2010, respectively.

#### Non-service Revenues

Non-service revenues increased by Php277 million, or 30%, to Php1,194 million in 2011 from Php917 million in 2010, primarily due to higher revenues from several managed PABX and *OnCall* solutions and *Telpad* units.

#### Expenses

Expenses related to our fixed line business totaled Php49,174 million in 2011, a decrease of Php371 million, or 1%, as compared with Php49,545 million in 2010. The decrease was primarily due to lower expenses related to compensation and employee benefits, rent, amortization of intangible assets and other operating expenses, partially offset by higher expenses related to depreciation and amortization, professional and other contracted services, repairs and maintenance, taxes and licenses, and asset impairment. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 84% in each of 2011 and 2010.

|  |                          |     |            |      | Increase (Dec | rease) |
|--|--------------------------|-----|------------|------|---------------|--------|
|  | 2011 <sup>(1 and )</sup> | %   | 2010       | %    | Amount        | %      |
|  |                          |     | (in millio | ins) |               |        |
| Depreciation and amortization              | Php13,244                | 27  | Php12,638  | 26   | Php606        | 5      |
| Compensation and employee benefits         | 10,177                   | 21  | 13,380     | 27   | (3,203)       | (24    |
| Interconnection costs                      | 8,099                    | 17  | 7,940      | 16   | 159           | 2      |
| Repairs and maintenance                    | 4,992                    | 10  | 4,547      | 9    | 445           | 10     |
| Professional and other contracted services | 3,363                    | 7   | 2,864      | 6    | 499           | 1      |
| Rent                                       | 2,164                    | 4   | 2,288      | 5    | (124)         | (5     |
| Selling and promotions                     | 1,664                    | 3   | 1,436      | 3    | 228           | 16     |
| Taxes and licenses                         | 1,319                    | 3   | 825        | 2    | 494           | 60     |
| Cost of sales                              | 1,177                    | 2   | 1,184      | 2    | (7)           | (1     |
| Asset impairment                           | 1,003                    | 2   | 596        | 1    | 407           | 68     |
| Communication, training and travel         | 741                      | 2   | 708        | 1    | 33            | 5      |
| Insurance and security services            | 576                      | 1   | 453        | 1    | 123           | 27     |
| Amortization of intangible assets          | 9                        | -   | 29         | -    | (20)          | (69    |
| Other expenses                             | 646                      | 1   | 657        | 1    | (11)          | . (2   |
| Total                                      | Php49,174                | 100 | Php49,545  | 100  | (Php371)      | (1     |

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2011 and 2010 and the percentage of each expense item to the total:

(1) Includes Digitel's expenses of Php715 million for the period from October 26, 2011 to December 31, 2011.

<sup>(2)</sup> As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments and the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Depreciation and amortization charges increased by Php606 million, or 5%, to Php13,244 million due to a higher depreciable asset base and the effect of the inclusion of Digitel's depreciation and amortization expenses for the period from October 26, 2011 to December 31, 2011.

Compensation and employee benefits expenses decreased by Php3,203 million, or 24%, to Php10,177 million primarily due to lower MRP and reversal of LTIP costs, lower salaries and employee benefits, and pension costs, partially offset by the effect of the inclusion of Digitel's compensation and employee benefits expenses for the period from October 26, 2011 to December 31, 2011. Conversely, employee headcount increased to 11,409 in 2011 as compared with 9,572 in 2010 mainly due to Digitel's headcount of 1,586.

Interconnection costs increased by Php159 million, or 2%, to Php8,099 million primarily due to higher international received paid calls that terminated to other domestic carriers, as well as higher settlement to various foreign administrations.

Repairs and maintenance expenses increased by Php445 million, or 10%, to Php4,992 million primarily due to higher maintenance costs of central office/telecom equipment, site electricity charges and fuel consumption cost, and the effect of the inclusion of Digitel's repairs and maintenance expenses for the period from October 26, 2011 to December 31, 2011, partially offset by lower office electricity charges, maintenance costs on IT hardware and software, and buildings.

Professional and other contracted service expenses increased by Php499 million, or 17%, to Php3,363 million primarily due to higher consultancy and contracted services in relation with the acquisition of Digitel, and customer relationship management service fees, and the effect of the inclusion of Digitel's professional and other contracted fees for the period from October 26, 2011 to December 31, 2011, partially offset by lower legal fees and outsource cost.

Rent expenses decreased by Php124 million to Php2,164 million primarily due to a decrease in satellite link, site and pole rental charges, partially offset by an increase in leased circuits and office building rental charges and the effect of the inclusion of Digitel's rent expenses for the period from October 26, 2011 to December 31, 2011.

Selling and promotion expenses increased by Php228 million, or 16%, to Php1,664 million primarily due to higher public relations expenses, as well as higher spending on advertising and promotions, and public relations and commission expenses and the effect of the inclusion of Digitel's selling and promotions expenses for the period from October 26, 2011 to December 31, 2011.

Taxes and licenses increased by Php494 million, or 60%, to Php1,319 million as a result of higher business-related taxes and the effect of the inclusion of Digitel's taxes and licenses for the period from October 26, 2011 to December 31, 2011.

Cost of sales decreased by Php7 million, or 1%, to Php1,177 million primarily due to lower sales of *PLP* units and SIM cards, partially offset by the sale of several managed PABX and *OnCall* solutions in 2011; no similar transactions were recognized in 2010, as well as higher computer-bundled sales in relation to our DSL promotions.

Asset impairment increased by Php407 million, or 68%, to Php1,003 million mainly due to higher provision for uncollectible receivables and the effect of the inclusion of Digitel's provision for uncollectible receivables for the period from October 26, 2011 to December 31, 2011, partially offset by lower impairment charges on payphone assets and investment in 2010.

Communication, training and travel expenses increased by Php33 million, or 5%, to Php741 million mainly due to the effect of the inclusion of Digitel's communication, training and travel expenses for the period from October 26, 2011 to December 31, 2011 and increases in foreign travel expenses, mailing and courier charges, and fuel consumption, partially offset by lower training and local travel expenses, and communication charges.

Insurance and security services increased by Php123 million, or 27%, to Php576 million primarily due to higher insurance and bond premiums, security services and the effect of the inclusion of Digitel's insurance and security expenses for the period from October 26, 2011 to December 31, 2011.

Amortization of intangible assets decreased by Php20 million, or 69%, to Php9 million primarily due to amortization of intangible assets related to PLDT's acquisition of the customer list of PDSI and Infocom in 2011.

Other expenses decreased by Php11 million, or 2%, to Php646 million primarily due to lower various business and operational-related expenses.

# Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses for the years ended December 31, 2011 and 2010:

|  |                           | _                   | Change   | e     |
|--|---------------------------|---------------------|----------|-------|
|  | 2011 <sup>(1 and 2)</sup> | 2010 <sup>(2)</sup> | Amount   | %     |
|  |                           | (in millio          | ons)     |       |
| Other Income (Expenses):                                 |                           |                     |          |       |
| Interest income  | Php590                    | Php482              | Php108   | 22    |
| Equity share in net earnings of associates               | 307                       | 186                 | 121      | 65    |
| Gains (losses) on derivative financial instruments - net | 211                       | (1,744)             | 1,955    | (112) |
| Foreign exchange gains (losses) – net                    | (15)                      | 985                 | (1,000)  | (102) |
| Financing costs – net                                    | (3,710)                   | (3,847)             | 137      | (4)   |
| Others   | 1,651                     | 1,195               | 456      | 38    |
| Total  | (Php966)                  | (Php2,743)          | Php1,777 | (65)  |

<sup>(1)</sup> Includes Digitel's other expenses of Php178 million for the period from October 26, 2011 to December 31, 2011.

As adjusted by division of the adjustments of a conform with the current presentation of our business segments and the adjustments on the application of the Revised PAS 19 – Employee Benefits. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures to the accompanying consolidated financial statements for further discussion.

Our fixed line business' other expenses amounted to Php966 million in 2011, a decrease of Php1,777 million, or 65%, from Php2,743 million in 2010. The decrease was due to the combined effects of the following: (i) net gains on derivative financial instruments of Php211 million in 2011 as against net losses on derivative financial instruments of Php1,744 million in 2010 due to the effect of wider dollar and peso interest rate differentials and depreciation of the Philippine peso to the U.S. dollar, and a decrease in hedge costs mainly due to the offsetting effect of overlay transactions in 2011; (ii) an increase in other income by Php456 million mainly due to the reversal of prior year's LTIP accrual and a gain on sale of investments in Level Up! and Digital Paradise; (iii) a decrease in net financing costs by Php137 million due to a decrease in interest expense on loans and related items on account of lower average interest rates, partially offset by higher average level of loan balances; (iv) increase in equity share in net earnings of associates and joint ventures of Php121 million mainly due to the share in net earnings of Philweb, and Digitel's reversal of impairment on investment in Digitel Crossing, Inc.; (v) an increase in interest income by Php108 million due to a higher average level of peso and dollar short-term investments and higher average peso interest rates, and impact of the depreciation of the Philippine peso on dollar placements; and (vi) net foreign exchange losses of Php15 million in 2011 as against net foreign exchange gains of Php985 million in 2010 on account of lower gains on net foreign exchange revaluation of foreign currency-denominated assets due to the effect of the depreciation of the Philippine peso to the U.S. dollar.

#### Provision for Income Tax

Provision for income tax increased by Php406 million, or 21%, to Php2,303 million in 2011 from Php1,897 million primarily due to higher taxable income. The effective tax rate of our fixed line business accounted for 28% and 29% in 2011 and 2010, respectively.

# Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,847 million in 2011, increased by Php1,127 million, or 24%, as compared with Php4,720 million in 2010.

# EBITDA

As a result of the foregoing, our fixed line business' EBITDA decreased by Php110 million to Php22,382 million in 2011 from Php22,492 million in 2010.

#### Core Income

Our fixed line business' core income decreased by Php110 million, or 2%, to Php5,310 million in 2011 from Php5,420 million in 2010, primarily as a result of a decrease in other expenses and lower fixed line expenses, partially offset by lower fixed line revenues and an increase in provision for income tax.

#### Others

#### Expenses

Expenses associated with our other business totaled Php11 million in 2011, a decrease of Php8 million, or 42%, as compared with Php19 million in 2010, primarily due to PCEV's lower expenses related to professional and other contracted services, and communication.

### Other Income

The following table summarizes the breakdown of other income for other business segment for the years ended December 31, 2011 and 2010:

|  |          |              | Change |       |
|--|----------|--------------|--------|-------|
|  | 2011     | 2010         | Amount | %     |
|  |          | (in millions | ;)     |       |
| Other Income (Expenses):                   |          |              |        |       |
| Equity share in net earnings of associates | Php1,843 | Php1,229     | Php614 | 50    |
| Interest income                            | 90       | 147          | (57)   | (39)  |
| Financing costs                            | -        | (2)          | 2      | (100) |
| Foreign exchange losses – net              | -        | (23)         | 23     | (100) |
| Others                                     | 65       | 20           | 45     | 225   |
| Total                                      | Php1,998 | Php1,371     | 627    | 46    |

Other income increased by Php627 million, or 46%, to Php1,998 million in 2011 from Php1,371 million in 2010 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php614 million mainly due to the increase in PCEV's direct and indirect share in the net earnings of Meralco, partly offset by PCEV's share in expenses of Beacon and fair value adjustment related to the acquisition of Meralco; (ii) an increase in other income by Php45 million; (iii) net losses on foreign exchange revaluation in 2010 of Php23 million by our PCEV business; and (iv) a decrease in interest income by Php57 million as a result of lower average level of investments by our PCEV business.

For the year ended December 31, 2011, Meralco's reported net income and core income amounted to Php13,227 million and Php14,887 million, respectively, as compared with Php9,685 million and Php12,155 million, respectively, in 2010. These results were due primarily to an increase in billed customers as compared with 2010 and the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission for 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 Php1,843 million and Php2,319 million, respectively, in 2011 and Php1,229 million and Php1,928 million, respectively, in 2010. 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, other services registered a net income of Php1,985 million, an increase of Php634 million, or 47%, in 2011 from Php1,351 million in 2010.

# EBITDA

As a result of the foregoing, EBITDA from other services decreased by Php8 million, or 42%, to negative Php11 million in 2011 from negative Php19 million in 2010.

# Core Income

Other services' core income amounted to Php2,461 million in 2011, an increase of Php395 million, or 19%, as compared with Php2,066 million in 2010 mainly as a result of higher other income and a decrease in expenses, partially offset by an increase in provision for income tax.

# Liquidity and Capital Resources

The following table shows our consolidated cash flows for the nine months ended September 30, 2013 and 2012, and for the years ended December 31, 2012, 2011 and 2010 as well as our consolidated capitalization and other consolidated selected financial data as at September 30, 2013 and December 31, 2012, 2011 and 2010:

|  | For the Nine Months Ended<br>September 30. |                        |               | Years Ended<br>December 31, |            |
|--|--|------------------------|---------------|-----------------------------|------------|
|  | 2013                                       | 2012                   | 2012          | 2011 <sup>(1)</sup>         | 2010       |
|  |  |                        | (in millions) |                             |            |
| Cash Flows   |  |                        |               |                             |            |
| Net cash flows provided by operating activities            | Php51.605                                  | Php54,822              | Php80,370     | Php79.209                   | Php77.260  |
| Net cash flows used in investing activities                | 8.001                                      | 22,765                 | 39.058        | 29,712                      | 23,283     |
| Capital expenditures                                       | 14,888                                     | 19,294                 | 36,396        | 31,207                      | 28,766     |
| Net cash flows used in financing activities                | 52,652                                     | 39,125                 | 48,628        | 40,204                      | 55,322     |
| Net increase (decrease) in cash and cash equivalents       | 8,517                                      | 7,423                  | (7,761)       | 9,379                       | (1,641)    |
|  |  | As at<br>September 30. | As            | at December 31.             |            |
|  |  | 2013                   | 2012          | 2011 <sup>(1)</sup>         | 2010       |
| (in millions)  |  | 2010                   | 2012          | 2011                        | 2010       |
| Capitalization   |  |                        |               |                             |            |
| Interest-bearing financial liabilities:                    |  |                        |               |                             |            |
| Long-term financial liabilities:                           |  |                        |               |                             |            |
| Long-term debt   |  | Php95,201              | Php102,811    | Php91,273                   | Php75,879  |
| Obligations under finance lease                            |  | 7                      | 10            | 7                           | 9          |
|  |  | 95,208                 | 102,821       | 91,280                      | 75,888     |
| Current portion of interest-bearing financial liabilities: |  |                        |               |                             |            |
| Notes pavable  |  | _                      | _             | 3.109                       | -          |
| Long-term debt maturing within one year                    |  | 14,252                 | 12,981        | 22,893                      | 13,767     |
| Obligations under finance lease maturing within one year   |  | 6                      | 8             | 7                           | 34         |
|  |  | 14.258                 | 12,989        | 26.009                      | 13.801     |
| Total interest-bearing financial liabilities               |  | 109,466                | 115,810       | 117,289                     | 89,689     |
| Total equity attributable to equity holders of PLDT        |  | 139.337                | 145,550       | 153,860                     | 97,416     |
|  |  | Php248.803             | Php261,360    | Php271,149                  | Php187,105 |
| Other Selected Financial Data                              |  | P                      | p - 1 / 1 # # | 1. 1. 10                    | 1          |
| Total assets   |  | Php390,817             | Php405,815    | Php401,792                  | Php278,083 |
| Property, plant and equipment                              |  | 191,578                | 200,078       | 200,142                     | 163,184    |
| Cash and cash equivalents                                  |  | 29,779                 | 37,161        | 46,057                      | 36,678     |
| Short-term investments                                     |  | 595                    | 574           | 558                         | 669        |

(1) The December 31, 2011 comparative assets and liabilities were adjusted to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel to the accompanying consolidated financial statements for further discussion.

Our consolidated cash and cash equivalents and short-term investments totaled Php30,374 million as at September 30, 2013. Principal sources of consolidated cash and cash equivalents in the first nine months of 2013 were cash flows from operating activities amounting to Php51,605 million, proceeds from availment of long-term debt of Php31,701 million, proceeds from disposal of investments, net of cash of deconsolidated subsidiaries, of Php12,075 million, proceeds from sale of Philweb shares of Php1,009 million, interest received of Php742 million and dividends received of Php426 million. These funds were used principally for: (1) debt principal and interest payments of Php42,473 million and Php3,832 million, respectively; (2) dividend payments of Php37,634 million; (3) capital outlays, net of capitalized interest, of Php14,888 million; (4) payment for purchase of investments in joint ventures, associates and deposits for PDR subscription of Php5,594 million; (5) net payment for purchase of Php427 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php37,890 million as at September 30, 2012. Principal sources of consolidated cash and cash equivalents in the first nine months of 2012 were cash flows from operating activities amounting to Php54,822 million, proceeds from availment of long-term debt and notes payable of Php41,449 million, interest received of Php980 million and dividends received of Php752 million. These funds were used principally for: (1) dividend payments of Php36,854 million; (2) debt principal and interest payments of Php30,749 million and Php4,195 million, respectively; (3) capital outlays, including capitalized interest, of Php19,294 million; (4) payment for purchase of investment in associates and deposits for PDR subscription of Php8,956 million and payment for purchase of shares of noncontrolling interest of Php772 million; (5) trust fund and

settlement for redemption of shares of Php5,603 million; (6) net settlement of capital expenditures under long-term financing of Php1,992 million; and (7) settlements of derivative financial instruments of Php918 million.

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

Our consolidated cash and cash equivalents and short-term investments totaled Php46,615 million as at December 31, 2011. Principal sources of consolidated cash and cash equivalents in 2011 were cash flows from operating activities amounting to Php79,209 million, proceeds from availment of long-term debt and notes payable of Php19,600 million, net proceeds from disposal of investment in associates of Php14,981 million, interest received of Php1,359 million, dividends received of Php520 million. These funds were used principally for: (1) dividend payments of Php41,598 million; (2) capital outlays of Php31,207 million; (3) payments for purchase of available-for-sale financial investments of Php15,179 million; (4) debt principal and interest payments of Php15,056 million and Php5,325 million, respectively; (5) settlement of contingent consideration arising from business acquisitions of Php19,101 million; and (6) settlements of derivative financial instruments of Php632 million.

# **Operating Activities**

Our consolidated net cash flows from operating activities decreased by Php3,217 million, or 6%, to Php51,605 million in the first nine months of 2013 from Php54,822 million in the same period in 2012, primarily due to higher settlement of accounts payable and other various liabilities and higher pension contributions, partially offset by higher level of collection of receivables and higher operating income. Cash flows from operating activities of our wireless business decreased by Php2,889 million, or 8%, to Php32,732 million in the first nine months of 2013 from Php35,621 million in the same period in 2012, primarily due to higher level of settlement of other current liabilities and lower operating income, partially offset by lower level of settlement of accounts payable and higher level of collection of outstanding receivables. Conversely, cash flows provided by operating activities of our fixed line business increased by Php2,769 million, or 16%, to Php20,482 million in the first nine months of 2013 from Php17,713 million in the same period in 2012, primarily due to higher operating income and higher level of collection of receivables, partially offset by higher level of settlement of accounts payable and other liabilities, and higher pension contributions.

Our consolidated net cash flows from operating activities increased by Php1,161 million, or 1%, to Php80,370 million in 2012 from Php79,209 million in 2011, primarily due to an increase in the Digitel Group's net cash flows from operating activities by Php11,317 million, lower settlement of accounts payable and other various liabilities and lower corporate taxes paid, partially offset by lower operating income and lower collection of receivables. Cash flows provided by operating activities of our BPO business in 2012 amounted to Php1,926 million, an increase of Php13,139 million, or 117%, as against cash flows used in operating activities of Php11,213 million in 2011, primarily due to higher operating income and a lower level of settlement of accounts payable and other liabilities, partially offset by a lower level of collection of outstanding receivables. Conversely, cash flows provided by operating activities of our fixed line business decreased by Php11,073 million, or 31%, to Php24,402 million in 2012 from Php35,475 million in 2011, primarily due to lower operating income, lower collection of receivables and higher contribution to the pension plan, partially offset by lower level of settlement of other current liabilities. Cash flows from operating activities of our wireless business also decreased by Php852 million, or 2%, to Php54,119 million in 2011, primarily due to lower level of collection of outstanding receivables and higher level of settlement of accounts payable, partially offset by higher operating income, lower level of settlement of other current liabilities.

Our consolidated net cash flows from operating activities increased by Php1,949 million, or 3%, to Php79,209 million in 2011, including Digitel Group's cash flows from operating activities for the period from October 26, 2011 to December 31, 2011 of Php1,785 million, which was increased from Php77,260 million in 2010, primarily due to the LTIP settlement in March 2010, which resulted in a reduction in our cash flows from operating activities in 2010, as well as due to a higher collection of receivables, which was partially offset by higher settlement of various payables in 2011. Cash flows provided by operating activities of our fixed line business increased by Php15,912 million, or 81%, to Php35,475 million in 2011 from Php19,563 million in 2010, primarily due to the LTIP settlement in March 2010,

and higher collection of receivables mainly due to the collection of ePLDT's receivable from SPi as a result of the transfer of SPi and SPi CRM, partially offset by higher level of settlement of accounts payable and other liabilities. Cash flows from operating activities of our wireless business decreased by Php678 million to Php54,971 million in 2011 from Php55,649 million in 2010, primarily due to lower operating income and higher level of settlement of accounts payable and other current liabilities, partially offset by higher level of collection of outstanding receivables. Cash flows used in operating activities of our BPO business in 2011 amounted to Php11,213 million as against cash flows provided by operating activities amounting to Php1,850 million in 2010, primarily due to a higher level of settlement of accounts payable and other liabilities mainly due to the settlement of SPi's payable to ePLDT as a result of the transfer of SPi and SPi CRM, partially offset by higher level of collection of outstanding receivables.

# **Investing Activities**

Consolidated net cash flows used in investing activities amounted to Php8,001 million in the first nine months of 2013, a decrease of Php14,764 million, or 65%, from Php22,765 million in the same period in 2012, primarily due to the combined effects of the following: (1) proceeds from sale of BPO business, net of cash of deconsolidated subsidiaries, of Php12,075 million; (2) lower payment for investment in joint ventures, associates and deposits for PDR subscription by Php3,362 million, and acquisition of shares of noncontrolling interest by Php765 million; (3) the decrease in capital expenditures by Php4,406 million; (4) lower net proceeds from disposal of investments available for sale of Php3,578 million; (5) increase in notes receivable of Php1,024 million; and (6) lower dividends received by Php326 million.

Consolidated net cash flows used in investing activities amounted to Php39,058 million in 2012, an increase of Php9,346 million, or 31%, from Php29,712 million in 2011, primarily due to the combined effects of the following: (1) proceeds from disposal of investments in 2011 of Php15,136 million; (2) higher payment for purchase of investments by Php11,296 million in 2012; (3) the increase in capital expenditures by Php5,189 million; (4) the lower proceeds from disposal of property, plant and equipment of Php324 million; (5) lower net proceeds from maturity of short-term investments by Php91 million; (6) higher net proceeds from disposal of investment available for sale by Php18,741 million in 2012; (7) proceeds from the sale of net assets held for sale of Php1,913 million; (8) payment for contingent consideration arising from business acquisition of Php1,910 million in 2011; and (9) higher dividends received by Php264 million.

Consolidated net cash flows used in investing activities amounted to Php29,712 million in 2011, including the Digitel Group's cash flows from investing activities for the period from October 26, 2011 to December 31, 2011 of Php1,029 million, an increase of Php6,429 million, or 28%, from Php23,283 million in 2010, primarily due to the combined effects of the following: (1) the higher payments for purchase of available-for-sale financial assets by Php15,177 million; (2) the lower net proceeds from the maturity of short-term investments by Php3,073 million; (3) the increase in capital expenditures by Php2,441 million; (4) the payment for contingent consideration arising from business acquisitions by Php1,910 million; (5) the lower proceeds from disposal of property, plant and equipment of Php336 million; (6) the higher interest received by Php194 million; (7) net cash utilized for the purchase of an investment of Php1,357 million; and (8) the net proceeds from disposal of investments of Php14,981 million.

Our consolidated capital expenditures, including capitalized interest, in the first nine months of 2013 totaled Php14,888 million, a decrease of Php4,406 million, or 23%, as compared with Php19,294 million in the same period in 2012, primarily due to decreases in the Digitel Group's and Smart Group's capital spending, partially offset by PLDT's higher capital spending. PLDT's capital spending of Php7,369 million in the first nine months of 2013 was principally used to finance the expansion and upgrade of its submarine cable facilities, DFON facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. Smart Group's capital spending of Php6,874 million in the first nine months of 2013 was used primarily to modernize and expand its 2G/3G cellular and mobile broadband networks, as well as to purchase additional customer premises equipment for the fixed wireless broadband business. DMPI's capital spending of Php403 million in the first nine months of 2013 was intended principally to finance the expansion of fixed mobile convergence and continued upgrade of its core and transmission network to increase penetration, mainly in provincial areas. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures in 2012 totaled Php36,396 million, an increase of Php5,189 million, or 17%, as compared with Php31,207 million in 2011, primarily due to increases in Smart and its subsidiaries' capital spending, and the Digitel Group's capital spending, partially offset by the decrease in PLDT's capital spending.

Our consolidated capital expenditures in 2011 totaled Php31,207 million, an increase of Php2,441 million, or 8%, as compared with Php28,766 million in 2010, primarily due to an increase in PLDT's capital spending and inclusion of the Digitel Group's capital spending of Php839 million for the period from October 26, 2011 to December 31, 2011.

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

Dividends received in the first nine months of 2013 amounted to Php426 million, a decrease of Php326 million, or 43%, as compared with Php752 million in the same period in 2012. The dividends received in the first nine months of 2013 were from Beacon and Philweb. The dividends received in the first nine months of 2012 were from Meralco and Philweb.

Dividends received in 2012 amounted to Php784 million, an increase of Php264 million, or 51%, as compared with Php520 million in 2011. The dividends received in 2012 were mostly from Beacon and Philweb while dividends received in 2011 were mostly from Meralco and Philweb.

# **Financing Activities**

On a consolidated basis, net cash flows used in financing activities amounted to Php52,652 million in the first nine months of 2013, an increase of Php13,527 million, or 35% as compared with Php39,125 million in the same period in 2012, resulting largely from the combined effects of the following: (1) higher net payments of long-term debt and notes payable by Php11,724 million; (2) lower proceeds from the issuance of long-term debt and notes payable by Php9,748 million; (3) higher cash dividends paid by Php780 million; (4) creation of trust fund for the redemption of shares of Php5,603 million in 2012; (5) net additions to capital expenditures under long-term financing of Php2,165 million; (6) lower settlement of derivative financial instruments of Php491 million; and (7) lower interest payment by Php363 million.

On a consolidated basis, net cash flows used in financing activities amounted to Php48,628 million in 2012, an increase of Php8,424 million, or 21% as compared with Php40,204 million in 2011, resulting largely from the combined effects of the following: (1) increase in repayments of long-term debt and notes payable by Php35,012 million; (2) a trust fund, net of settlement, created for the redemption of preferred shares in the amount of Php5,912 million; (3) higher net settlement of capital expenditures under long-term financing by Php4,351 million; (4) higher settlements of derivative financial instruments by Php494 million; (5) higher proceeds from the issuance of long-term debt and notes payable by Php32,544 million; (6) lower cash dividend payments by Php4,664 million; and (7) higher proceeds from issuance of capital stock by Php225 million.

On a consolidated basis, net cash flows used in financing activities amounted to Php40,204 million in 2011, including the Digitel Group's net cash flows used in financing activities for the period from October 26, 2011 to December 31, 2011 of Php793 million, a decrease of Php15,118 million, or 27%, as compared with Php55,322 million in 2010, resulting largely from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php12,354 million; (2) higher net availment of capital expenditures under long-term financing by Php2,805 million; (3) lower settlements of derivative financial instruments by Php463 million; (4) lower interest payments by Php255 million; (5) net increase in repayments of long-term debt and notes payable by Php411 million; and (6) higher cash dividend payments by Php518 million.

# **DIRECTORS AND OFFICERS**

The Board is principally responsible for PLDTS's overall direction and governance. PLDT's Articles of Incorporation provide for thirteen members of the Board, who shall be elected by the stockholders. At present, three of PLDT's thirteen directors are independent directors. The Board holds office for one year and until their successors are elected and qualified in accordance with the By-Laws.

The name, age and period of service, of each of the current directors, including independent directors, of PLDT are as follows:

| Name  | Age | Period during which individual has served as such |
|---|-----|---|
| Manuel V. Pangilinan  | 67  | November 24, 1998 to present                      |
| Napoleon L. Nazareno  | 63  | November 24, 1998 to present                      |
| James L. Go   | 74  | November 3, 2011 to present                       |
| Helen Y. Dee  | 69  | June 18, 1986 to present                          |
| Ray C. Espinosa   | 57  | November 24, 1998 to present                      |
| Ret. Chief Justice Artemio V. Panganiban <sup>(1 and 2)</sup> | 76  | April 23, 2013 to present                         |
| Juan B. Santos  | 75  | January 25, 2011 to present                       |
| Setsuya Kimura  | 56  | July 5, 2011 to present                           |
| Hideaki Ozaki   | 48  | December 6, 2011 to present                       |
| Pedro E. Roxas <sup>(2)</sup>                                 | 57  | March 1, 2001 to present                          |
| Alfred V. Ty <sup>(2)</sup>                                   | 46  | June 13, 2006 to present                          |
| Tony Tan Caktiong   | 60  | July 8, 2008 to present                           |
| Ma. Lourdes C. Rausa-Chan                                     | 60  | March 29, 2011 to present                         |

Elected on April 23, 2013.
 Independent Director.

The name, age, position and period of service of the executive officers and all other officers of PLDT as at October 31, 2013 are as follows:

| Name                         | Age | Position(s)   | Period during which<br>individual has served as such  |
|------------------------------|-----|---|---|
| Manuel V. Pangilinan         | 67  | Chairman of the Board   | February 19, 2004 to present  |
| Napoleon L. Nazareno         | 63  | President and CEO<br>President and CEO of Smart   | February 19, 2004 to present<br>January 2000 to present   |
| Ernesto R. Alberto           | 52  | Executive Vice President<br>Enterprise, International and Carrier Business Head<br>Customer Sales and Marketing Head<br>Corporate Business Head | January 1, 2012 to present<br>September 16, 2011 to present<br>February 1, 2008 to September 15, 2011<br>May 15, 2003 to January 31, 2008 |
| Isaias P. Fermin             | 45  | Executive Vice President<br>HOME Business Head  | June 14, 2013 to present<br>January 1, 2012 to present  |
| Ray C. Espinosa              | 57  | Regulatory Affairs and Policies Head  | March 4, 2008 to present  |
| Ma. Lourdes C. Rausa-Chan    | 60  | Senior Vice President<br>Corporate Secretary<br>Corporate Affairs and Legal Services Head   | January 5, 1999 to present<br>November 24, 1998 to present<br>January 5, 1999 to present  |
| Anabelle L. Chua             | 52  | Chief Governance Officer<br>Senior Vice President<br>Corporate Finance and Treasury Head<br>Treasurer   | March 4, 2008 to present<br>February 26, 2002 to present<br>March 1, 1998 to present<br>February 1, 1999 to present                       |
|                              |     | Chief Financial Officer of Smart  | December 1, 2005 to present   |
| Rene G. Bañez                | 58  | Senior Vice President   | January 25, 2005 to present   |
|                              |     | Supply Chain, Asset Protection and Management<br>Head   | January 1, 2008 to present  |
|                              |     | Chief Governance Officer  | October 5, 2004 to March 3, 2008  |
| Jun R. Florencio             | 57  | Senior Vice President   | June 14, 2005 to present  |
|                              |     | Internal Audit and Fraud Risk<br>Management Head  | February 16, 2006 to present  |
|                              |     | Audit and Assurance Head  | September 1, 2000 to February 15, 2006  |
| Menardo G. Jimenez, Jr.      | 50  | Senior Vice President   | December 9, 2004 to present   |
|                              |     | Human Resources Head and Business Transformation<br>Office Head   | <b>3</b>  |
|                              |     | Business Transformation Office –<br>Revenue Team Head   | January 1, 2008 to July 2010  |
|                              |     | Retail Business Head<br>Corporate Communications and<br>Public Affairs Head   | June 16, 2004 to December 31, 2007<br>December 1, 2001 to June 15, 2004   |
| Claro Carmelo P. Ramirez     | 53  | Senior Vice President   | July 1, 1999 to present   |
|                              |     | Office of the President and CEO<br>Seconded to MediaQuest   | January 1, 2008 to present  |
|                              |     | Consumer Affairs Group Head<br>International and Carrier Business Head<br>Retail Business Head  | December 5, 2005 to December 31, 2007<br>June 16, 2004 to December 4, 2005<br>February 1, 2003 to June 15, 2004                           |
| Alejandro O. Caeg            | 53  | Senior Vice President<br>International and Carrier Business Head  | January 1, 2012 to present<br>March 1, 2009 to present  |
| June Cheryl A. Cabal-Revilla | 40  | First Vice President<br>Financial Reporting and Controllership Head   | March 1, 2009 to present<br>May 6, 2008 to present<br>November 15, 2006 to present  |
|                              |     | Financial Reporting and Planning Head   | May 1, 2002 to November 15, 2006  |
| Florentino D. Mabasa, Jr     | 55  | First Vice President  | February 19, 2004 to present  |

| Name                                     | <u>Age</u> | Position(s)          | Period during which<br>individual has served as such |
|--|------------|----------------------|--|
| Emiliano R. Tanchico, Jr                 | 57         | First Vice President | May 8, 2001 to present                               |
| Ricardo M. Sison                         | 52         | First Vice President | February 26, 2002 to present                         |
| Miguela F. Villanueva                    | 62         | First Vice President | January 31, 2003 to present                          |
| Cesar M. Enriquez                        | 60         | First Vice President | February 19, 2004 to present                         |
| Alfredo B. Carrera                       | 58         | First Vice President | February 27, 2006 to present                         |
| Leo I. Posadas                           | 46         | First Vice President | March 6, 2007 to present                             |
| Katrina L. Abelarde <sup>(1)</sup>       | 38         | First Vice President | March 5, 2013 to present                             |
| Anna Isabel V. Bengzon <sup>(1)</sup>    | 40         | First Vice President | March 5, 2013 to present                             |
| Juan Victor I. Hernandez <sup>(1)</sup>  | 40         | First Vice President | March 5, 2013 to present                             |
| Melissa V. Vergel De Dios <sup>(1)</sup> | 50         | First Vice President | March 5, 2013 to present                             |
| Martin T. Rio <sup>(2)</sup>             | 53         | First Vice President | October 22, 2012 up to present                       |
| Jesus M. Tañedo                          | 62         | Vice President       | January 1, 2001 to present                           |
| Ricardo C. Rodriguez                     | 55         | Vice President       | February 26, 2002 to present                         |
| Rebecca Jeanine R. de Guzman             | 50         | Vice President       | March 1, 2003 to present                             |
| Emeraldo L. Hernandez                    | 56         | Vice President       | February 19, 2004 to present                         |
| Joseph Nelson M. Ladaban                 | 48         | Vice President       | February 19, 2004 to present                         |
| Genaro C. Sanchez                        | 51         | Vice President       | January 25, 2005 to present                          |
| Jose A. Apelo                            | 54         | Vice President       | June 14, 2005 to present                             |
| Ma. Josefina T. Gorres                   | 50         | Vice President       | June 14, 2005 to present                             |
| Elisa B. Gesalta                         | 54         | Vice President       | February 27, 2006 to present                         |
| Ma. Criselda B. Guhit                    | 51         | Vice President       | February 27, 2006 to present                         |
| Oliver Carlos G. Odulio                  | 42         | Vice President       | March 6, 2007 to present                             |
| Ana Maria A. Sotto                       | 55         | Vice President       | March 6, 2007 to present                             |
| Julieta S. Tañeca                        | 54         | Vice President       | March 6, 2007 to present                             |
| Marco Alejandro T. Borlongan             | 46         | Vice President       | September 14, 2007 to present                        |
| Rafael M. Bejar                          | 56         | Vice President       | March 3, 2009 to present                             |
| Renato L. Castañeda                      | 61         | Vice President       | March 3, 2009 to present                             |
| Alexander S. Kibanoff                    | 49         | Vice President       | March 3, 2009 to present                             |
| Javier C. Lagdameo                       | 48         | Vice President       | March 3, 2009 to present                             |
| Alona S. Dingle                          | 40         | Vice President       | March 26, 2010 to present                            |
| Gil Samson D. Garcia                     | 42         | Vice President       | March 26, 2010 to present                            |
| Luis Ignacio A. Lopa                     | 53         | Vice President       | March 26, 2010 to present                            |
| Marven S. Jardiel                        | 46         | Vice President       | March 26, 2010 to present                            |
| Victor Y. Tria                           | 44         | Vice President       | March 26, 2010 to present                            |
| Margarito G. Dujali, Jr                  | 39         | Vice President       | August 31, 2010 to present                           |
| Patrick S. Tang                          | 40         | Vice President       | August 31, 2010 to present                           |
| Albert Mitchell L. Locsin                | 42         | Vice President       | June 1, 2011 to present                              |
| Raul S. Alvarez <sup>(1)</sup>           | 63         | Vice President       | March 5, 2013 to present                             |
| Joselito S. Limjap <sup>(1)</sup>        | 51         | Vice President       | March 5, 2013 to present                             |
| Ma. Carmela F. Luque <sup>(1)</sup>      | 45         | Vice President       | March 5, 2013 to present                             |
| Walter M. Gaffud <sup>(3)</sup>          | 38         | Vice President       | May 1, 2013 to present                               |
| Joseph lan G. Gendrano <sup>(3)</sup>    | 36         | Vice President       | May 1, 2013 to present                               |
| John John R. Gonzales <sup>(4)</sup>     | 45         | Vice President       | June 1, 2013 to present                              |

(1) Effective March 5, 2013.

(2) Effective October 22, 2012.

<sup>(3)</sup> Effective May 1, 2013.

(4) Effective June 1, 2013.

At least three of our directors, namely, Artemio V. Panganiban, Pedro E. Roxas and Alfred V. Ty, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and CG Manual pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

The following is a brief description of the business experiences of each of our directors, executive officers and advisors for at least the past five years:

**Mr. Manuel V. Pangilinan**, 67 years old, has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and Chief Executive Officer from November 1998 to February 2004. He is the Chairman of the Governance and Nomination, Executive Compensation and Technology Strategy Committees of the Board of Directors of PLDT. He also serves as Chairman of Manila Electric Company ("Meralco"), Smart Communications, Inc. ("Smart"), Metro Pacific Investments Corporation, Landco Pacific Corporation, Philex Mining Corporation, Manila North Tollways Corporation, Associated Broadcasting Corp. (TV5), Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), Asian Hospital, Inc., Riverside Medical Center, Davao Doctors, Inc. and Our Lady of Lourdes Hospital.

Mr. Pangilinan founded First Pacific Company Limited in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as Chief Executive Officer and Managing

Director. He also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College, PLDT-Smart Foundation, Inc. and the Philippine Business for Social Progress, Philippine Disaster Recovery Foundation, Inc. and the Hongkong Bayanihan Trust, a non-stock, non-profit foundation which provides vocational, social and cultural activities for Hongkong's foreign domestic helpers, the Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. He is a Co-Chairman of the newly organized US-Philippine Business Society, a non-profit society which seeks to broaden the relationship between the United States and the Philippines in the areas of trade, investment, education, foreign and security policies and culture. In February 2007, he was named the President of the Samahang Basketbol ng Pilipinas (SBP), a national sports association for basketball, and effective January 2009, he assumed the chairmanship of the Armateur Boxing Association of the Philippines (ABAP), the governing body of amateur boxers in the country. In 2011, he was appointed a member of the ASEAN Business Advisory Council by the Office of the President of the Philippines. He was a former Commissioner of the Pasig Rehabilitation Commission and a former Governor of the Philippine Stock Exchange.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the President Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Management Man of the Year by the Management Association of the Philippines (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), Business Icon Gold Award by Bix News Asia Magazine (2008), Sports Patron of the Year by Philippine Sportswriters Association (2010), Global Filipino Executive of the Year (Asia CEO Awards 2010) and Philippines Best CEO for 2012 by Finance Asia.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance & Commerce at the University of Pennsylvania.

**Mr. Napoleon L. Nazareno**, 63 years old, has been a director of PLDT since November 24, 1998 and is a member of the Technology Strategy Committee of the Board of Directors of PLDT. He has served as President and Chief Executive Officer of PLDT since his appointment on February 19, 2004 and is concurrently the President and Chief Executive Officer of Smart since January 2000. He also serves as Chairman of several subsidiaries of Smart including Smart e-Money, Inc., PLDT Communications and Energy Ventures, Inc. ("PCEV"), Wolfpac Mobile, Inc., Smart Broadband, Inc., I-Contacts Corporation and Airborne Access, and the President of Connectivity Unlimited Resources, Inc. His other directorships include Digital Telecommunications Phils, Inc. ("Digitel Mobile") and ACeS Philippines Cellular Satellite Corporation ("Aces Philippines"). He is a non-executive director of First Pacific Company Limited.

Mr. Nazareno's business experience spans several countries in over 30 years and his exposure cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last 13 years, telecommunications and information technology. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

Mr. Nazareno is also the Chairman of the Board of Trustees and Governors of the Asian Institute of Management, a Governor of the Management Association of the Philippines and a member of the Council of Advisors of the DLSU-Graduate School of Business, Partner-Member of the Philippine Business for Social Progress, Philippine-Thailand Business Council and Pacific Basin Economic Council, among others. He was a board member of the GSM Association Worldwide from November 2004 to November 2012 and of the Wireless Applications Community (WAC), an international alliance of telecommunications companies from 2010 to August 2012. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by Asiamoney and was recently awarded the Telecom CEO of the Year at the 15<sup>th</sup> Telecoms Asia Awards, an influential Asian telecommunications industry magazine in Bangkok, as well as the "Best Telecom CEO in Asia" in 2013 by the All-Asia Executive Team Survey conducted by the New York-based Institutional Investor 2013.

Mr. Nazareno received his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program at the European Institute of Business Administration in Fountainbleu, France.

**Ms. Helen Y. Dee**, 69 years old, has been a director of PLDT since June 18, 1986. She is the Chairperson, Vice Chairperson or a director of several companies engaged in banking, insurance and real property businesses. She is also the President and/or Chief Executive Officer of Hydee Management and Resource Corp., Moira Management, Inc., Tameena Resources, Inc., YGC Corporate Services, Inc., Financial Brokers Insurance Agency, Inc., GPL Holdings, Inc. and Mijo Holdings, Inc., the Vice President of A. T. Yuchengco, Inc., and the Treasurer of Business Harmony Realty, Inc. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

Atty. Ray C. Espinosa, 57 years old, is a Director of Philippine Long Distance Telephone Company ("PLDT"), Meralco PowerGen Corporation, Manila Electric Company ("MERALCO"), and Metro Pacific Investment, Corporation, Mediaquest Holdings, Inc., ABC Development Corporation ("TV5"), Cignal TV, Inc., an Independent Director and Chairman of the Audit Committee of Lepanto Consolidated Mining Company and a Director and the Vice Chairman of Philweb Corporation. He is the General Counsel of MERALCO and Head of PLDT's Regulatory Affairs and Policy Office. He is also a trustee of the Beneficial Trust Fund of PLDT.

Mr. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner of SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington, D.C., USA) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989.

Mr. Espinosa joined First Pacific in June 2013. He is First Pacific Group's Head of Government and Regulatory Affairs and Head of Communications Bureau for the Philippines.

Atty. Espinosa served as President and Chief Executive Officer of ePLDT from August 21, 2000 until April 15, 2010. Prior to joining PLDT, he was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2000. He topped the Philippine Bar examination in 1982 after graduating Salutatorian of Law Class 1982 from the Ateneo de Manila University and received his Master of Laws Degree from the University of Michigan Law School.

**Mr. James L. Go,** 74 years old, is currently the Chairman and Chief Executive Officer of JG Summit Holdings, Inc. and Oriental Petroleum and Minerals Corporation. He is the Chairman of Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is the Vice-Chairman and Deputy Chief Executive Officer of Robinsons Retail Holdings, Inc. and a director of Cebu Air, Inc., Singapore Land, Ltd., Marina Center Holdings, Inc., UIC and Hotel Marina City Private Limited. He is also the President and Trustee of the Gokongwei Brothers Foundation. He has been a director of PLDT since November 3, 2011. He is a member of the Technology Strategy Committee and Advisor of the Audit Committee of the Board of Directors of PLDT. Mr. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.

**Mr. Setsuya Kimura,** 56 years old, has been a director of PLDT since July 5, 2011. He is a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees, and Advisor of the Audit Committee of the Board of Directors of PLDT. He is the Director of Network Department of NTT DoCoMo, Inc. He also served as Regional CEO, Asia Pacific of NTT Communications and President & CEO of NTT Singapore Pte Ltd from 2007 to 2009, and as President & CEO of NTT Communications (Thailand) Co. Ltd from 2003 to 2007. Prior to that, he occupied various management positions in Nippon Telephone and Telegraph Company. Mr. Kimura obtained his Bachelor's Degree in Civil Engineering from Hokkaido University.

**Mr. Hideaki Ozaki**, 48 years old, has been a director of PLDT since December 6, 2011. He is the Vice President of Planning, Global Business of NTT Communications Corporation ("NTT Com"), a company which provides telecommunication service and ICT services such as Global Network, Data Centre, Cloud Services inside and outside of Japan. Prior to that, he served as Vice President of Global Strategy, Global Business Division of NTT Com since 2006 and as Director of Legal and Internal Audit Department of NTT Com from 2003 to 2006. He also served as Vice President of Sales and Corporate Planning of NTT Communications (Thailand) Co., Ltd. from 1999 to 2003 and as Manager of Overseas Business Planning, Global Service Division of Nippon Telegraph and Telephone Corporation from 1995 to 1999. Mr. Ozaki obtained his Bachelor's Degree in Law from University of Tokyo and Master's Degree in Law from University of Pennsylvania.

Hon. Artemio V. Panganiban, 76 years old, was elected as independent director on April 23, 2013. He was appointed as an independent member of the Audit, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT on May 7, 2013. He served as an independent member of the

Advisory Board and an independent non-voting member of the Governance and Nomination Committee of the PLDT Board of Directors from June 9, 2009 to May 6, 2013. Currently, he is also an independent director of Meralco, Petron Corporation, Bank of the Philippine Islands, First Philippine Holdings Corporation, Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, Tollways Management Corporation, Robinsons Land Corporation, GMA Network, GMA Holdings, and Asian Terminals, Inc.; and a regular director of Jollibee Foods Corporation. He is also Chairman of the Board of Trustees of the Foundation for Liberty and Prosperity and Chairman-Emeritus of the Philippine Dispute Resolution Center, Inc.; President of the Manila Cathedral-Basilica Foundation; Chairman of the Board of Advisers of Metrobank Foundation; senior adviser of the Metropolitan Bank and Trust Company; and a column writer of the Philippine Daily Inquirer.

Hon. Panganiban served the Supreme Court of the Philippines for more than 11 years, first as Justice (October 10, 1995 to December 20, 2005) and later, as Chief Justice (December 21, 2005 to December 6, 2006) during which he sat concurrently as Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy.

He was the recipient of numerous awards in recognition of his role as jurist, practising lawyer, professor, civic leader, Catholic lay worker and business entrepreneur, including as "The Renaissance Jurist of the 21<sup>st</sup> Century" given by the Supreme Court on the occasion of his retirement from the Court.

Hon. Panganiban obtained his Bachelor of Laws Degree (Cum Laude) from the Far Eastern University in 1960, passed the bar examinations in the same year as 6<sup>th</sup> placer, and conferred a Doctor of Laws (Honoris Causa) Degree by the University of Iloilo, Far Eastern University, University of Cebu, Angeles University and Bulacan State University. He was co-founder and past president of the National Union of Students of the Philippines.

**Mr. Pedro E. Roxas**, 57 years old, has been a director of PLDT since March 1, 2001 and qualified as an independent director since 2002. He is the Chairman of the Audit Committee and serves as a member of the Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Roxas Holdings, Inc. and Chairman/President & CEO of Roxas and Company, Inc., holding and investment companies, as well as of several companies engaged in agri-business, sugar manufacturing and real estate development, namely, Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc., Hawaiian Philippine Sugar Company, Roxol Bioenergy Corporation, Roxaco Land Corporation, and Fuego Land Corporation. He is also an independent director of Meralco and BDO Private Bank, a director of Brightnote Assets Corporation and Philippine Business for Social Progress and Fundacion Santiago (where he is also the President). Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

**Mr. Juan B. Santos**, 75 years old, has been a director of PLDT since January 25, 2011. He is the Chairman of Social Security Commission/Social Security System, a member of the Board of Directors of Alaska Milk Corporation, First Philippine Holdings Corporation, Sun Life Grepa Financials, Inc. Philex Mining Corporation and Zuellig Group, Inc., a member of the Board of Advisors of East-West Seeds Co., Inc., the Chairman of Ramon Magsaysay Award Foundation, a trustee of St. Luke's Medical Center, and a consultant of the Marsman-Drysdale Group of Companies.

Mr. Santos retired as Chief Executive Officer of Nestle Philippines, Inc. ("NPI") in 2003 and continued to serve as Chairman of NPI until 2005. Prior to his appointment as President and CEO of NPI, he was CEO of the Nestle Group of Companies in Thailand and Singapore. He served as Secretary of Trade and Industry from February to July 2005 and was designated as a member of the Governance Advisory Council, and Private Sector Representative for the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries.

Mr. Santos was bestowed the prestigious Management Man of the Year Award for 1994 by the Management Association of the Philippines and was the Agora Awardee for Marketing Management given by the Philippine Marketing Association in 1992.

Mr. Santos obtained his Bachelor of Science Degree in Business Administration from Ateneo de Manila University, pursued post graduate studies at the Thunderbird Graduate School of Management in Arizona, USA and completed the Advanced Management Course at IMD in Lausanne, Switzerland.

**Mr. Tony Tan Caktiong**, 60 years old, has been a director of PLDT since July 8, 2008. He is the Chairman and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fastfood business, which owns and operates a chain of restaurants nationwide and abroad. He is an independent director of First Gen Corporation, a member of the Board of Trustees of St. Luke's Medical Center, a director of Temasek Foundation and the Chairman of Jollibee Foundation. Mr. Tan Caktiong obtained his Bachelor of Science Degree in Chemical Engineering from University of Santo Tomas and honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

**Mr. Alfred V. Ty**, 46 years old, has been an independent director of PLDT since June 13, 2006. He serves as a member of the Audit, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Vice Chairman of Toyota Motor Philippines Corporation and GT Capital Holdings, Inc., the President of Federal Land, Inc., the Chairman of Asia Pacific Top Management International Resources Corp. (Marco Polo Plaza Cebu), a director of Global Business Power Corp., the Corporate Secretary of Metropolitan Bank and Trust Company, the Chairman of Lexus Manila, Inc., a trustee of Metrobank Foundation, Inc. and an independent director of Digitel. Mr. Ty received his Bachelor of Science Degree in Business Administration from the University of Southern California.

**Ms. Ma. Lourdes C. Rausa-Chan**, 60 years old, has been a director of PLDT since March 29, 2011. She has been serving as Corporate Secretary, Corporate Affairs and Legal Services Head and Chief Governance Officer of PLDT since November 1998, January 1999 and March 2008, respectively. She is a director of PCEV and ePLDT and also serves as Corporate Secretary of PCEV and ePLDT and several subsidiaries of PLDT. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Ms. Rausa-Chan obtained her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

**Mr. Ernesto R. Alberto**, 52 years old, was appointed as Enterprise and International and Carrier Business Head in September 2011. Prior to that, he was the Customer Sales and Marketing Group Head since February 2008. He leads all revenue generation relationship initiatives of the Enterprise and International and Carrier Business, including product/market development, product management, marketing, sales and distribution, and customer relationship management. He is the Chairman, President and/or Chief Executive Officer or director of PLDT Subic Telecom, Inc. ("PLDT SubicTel"), PLDT Clark Telecom, Inc. ("PLDT ClarkTel"), PLDT-Philcom, Inc. ("PLDT Philcom"), PLDT-Maratel, Inc. ("PLDT Maratel"), Telesat, Inc., SBI-Cruztelco, Bonifacio Communications Corporation ("Bonifacio Communications"), Mabuhay Satellite, Smart Multi-Media, ePLDT, and is also a director of NTT Communications Phils., Acasia, Asean Telecom Holdings and PLDT Malaysia Sdn Bhd. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. Mr. Alberto obtained his Master's Degree in Economic Research from the University of Asia and the Pacific.

**Mr. Isaias P. Fermin**, 45 years old, Home Business Head, is responsible for delivering revenue and profit growth for the Home Business through a much defined brand positioning that consistently engages the consumer in all touch points, a balanced product portfolio that propels both subscriber and ARPU growth and introduction of a new line of products and services that significantly improves the consumer use experience. Concurrently, he is also the Chief Operating Officer of Digitel and Chairman of the Board of PLDT-Philcom and PLDT-Maratel.

Mr. Fermin has over 20 years of experience covering general management, consumer marketing, wholesale and retail sales, and retail store management gained from leading fast moving consumer group companies locally and globally. Prior to joining the PLDT Group, Mr. Fermin was the President of Greenwich Food Corporation and Chowking Food Corporation of the Jollibee Foods Corporation from 2008 to 2011. He also served as Country Director of Nike Philippines from 2006 - 2008 and handled various posts in Unilever-Bestfoods from 1998 to 2005 as senior executive for sales, marketing, media and innovation process management. Mr. Fermin obtained his Bachelor of Science in Chemical Engineering Degree from the University of the Philippines. This educational background was used extensively in his years in Procter & Gamble, from 1986 to 1989.

**Ms.** Anabelle L. Chua, 52 years old, Treasurer and Corporate Finance and Treasury Head, concurrently holds the position of Chief Financial Officer of Smart since 2006. She holds directorships in Philippine Telecommunications Investment Corporation, Smart and several subsidiaries of PLDT and Smart including ePLDT, Digitel and Digitel Mobile, Aces Philippines, PCEV, Wolfpac Mobile, Inc., Smart Broadband, Inc., Smart Hub, Inc. and Chikka Holdings Limited. She is a member of the Board of Directors of the Philippine Stock Exchange and Securities Clearing Corporation of the Philippines and the Board of Trustees of the PLDT-Smart Foundation and PLDT Beneficial Trust Fund, and is a director of MediaQuest Holdings and several subsidiaries of MediaQuest. She has over 20 years of experience in the areas of corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

**Mr. Rene G. Bañez**, 58 years old, Supply Chain, Asset Protection and Management Group Head, was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Support Services and Tax Management Group Head of PLDT from January 1999 to January 2001. He is the President of Pacific Global One Aviation

Company and a director of PLDT ClarkTel, PLDT SubicTel, PLDT-Maratel, and PLDT-Philcom. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for 3 years until December 1998. He holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Laws Degree from the Ateneo de Manila University.

**Mr. Alejandro O. Caeg**, 53 years old, is the President and CEO of PLDT Global Corporation and concurrently the Head of PLDT, Smart, Digitel and Sun International & Carrier Business. He is Smart's representative to the Conexus Mobile Alliance (one of Asia's largest cellular roaming alliances), where he was also designated as its Deputy Chairman until 2012 and is currently Conexus Chairman till 2014. Prior to joining PLDT in 2009, he worked in PT Smart Telecom (Indonesia) as its Chief Commercial Strategy Officer from July 2008 to December 2008 and as Chief Commercial Officer from January 2006 to June 2008. He also held various sales, marketing and customer service-related positions in Smart including that of Group Head of Sales and Distribution (2003-2005), Group Head of Customer Care and National Wireless Centers (1998-2001) and Marketing Head of International Gateway Facilities and Local Exchange Carrier (1997-1998). He also served as President and Chief Executive Officer of Telecommunications Distributors Specialist, Inc. in 2002 and as Chief Operations Adviser of I-Contacts Corporation (Smart's Call Center subsidiary) from 2001 to 2002. Mr. Caeg graduated with a Bachelor's Degree in AB Applied Economics and obtained MBA credits from De La Salle University Manila.

**Mr. Jun R. Florencio**, 57 years old, Internal Audit and Fraud Risk Management Head, handles the overall coordination of the internal audit function of the PLDT group of companies and in-charge of the fraud risk management function of the PLDT fixed business. He has over 25 years of work experience in the areas of external and internal audit, revenue assurance, credit management, information technology, financial management, and controllership. He was the Financial Controller of Smart for four years before he joined PLDT in April 1999 as Head of the Financial Management Sector. He held various positions in the finance organization of another telecommunications company prior to joining Smart. Mr. Florencio obtained his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Santo Tomas and attended the Management Development Program of the Asian Institute of Management.

**Mr. Menardo G. Jimenez, Jr.**, 50 years old, Customer Service Assurance Head, Human Resources Group Head, and concurrently Business Transformation Office Head, was Revenue Team Head of the Business Transformation Office from January 2008 to July 2010, the Retail Business Head of PLDT from June 2004 to December 31, 2007 and, prior to that, the Corporate Communications and Public Affairs Head. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. He won the first CEO Excel Awards (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communications strategies in managing the PLDT retail business team to meet its targets and achieve new heights in the landline business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez obtained his AB Economics Degree from the University of the Philippines.

**Mr. Claro Carmelo P. Ramirez**, 53 years old, was recently appointed as President of Pilipinas Global Network Limited, the international distribution arm of TV5. He has over 20 years of work experience in the field of marketing. Prior to joining PLDT, he held various managerial positions in Colgate Palmolive Philippines, Inc., and served as Associate Director for Global Business Development of Colgate Palmolive Company in New York and as Marketing Director of Colgate Palmolive Argentina, S.A.I.C. and Colgate-Palmolive Phils, Inc. While in PLDT, he was the Head of Consumer Marketing, Retail Business Group (RBG), International and Carrier Business Group (ICBG), and Customer Care. He also held director positions in various PLDT subsidiaries and affiliates and served as President and CEO of PLDT ClarkTel, PLDT SubicTel, and PLDT-Maratel. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts Degree Major in Economics.

**Ms. June Cheryl A. Cabal-Revilla**, 40 years old, Controller and Financial Reporting and Controllership Head, is also a director and the chief financial officer/treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. She is also the Chief Financial Officer of Cignal TV Inc. and Pacific Global One Aviation Company, Trustee and Chief Finance Officer of the Philippine Disaster Recovery Foundation, Controller of First Pacific Leadership Academy, Inc. and the President of Tahanan Mutual Building and Loan Association. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. In March 2010, she was appointed as a member of the Financial Reporting Standards Council of the Philippines. Ms. Cabal-Revilla obtained her Bachelor of Science Degree in Accountancy from De La Salle University and Master in Business Management Degree from the Asian Institute of Management.

The following is a brief description of the business experience of the other member of senior management of PLDT as at October 31, 2013:

**Mr. Rolando G. Peña**, 52 years old, was designated, in January 2011, as the Technology Head for PLDT and Smart and is responsible for developing and overseeing the Technology Roadmap for the PLDT Group. He heads the evaluation, analysis, execution of the accelerated network build-out program encompassing fixed, wireless, broadband and IT networks of PLDT and Smart. He is a director of Smart and some subsidiaries of Smart and PLDT. Mr. Peña has over 28 years of experience in telecommunication operations. From 2008 to January 2011, he was the Customer Service Assurance Group Head of PLDT and Smart. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña obtained his Electronics and Communications Engineering Degree from Pamantasan ng Lungsod ng Maynila and is a Fellow at the Telecommunications Management Institute of Canada.

**Mr. Charles A. Lim**, 51 years old, has been the Chief Operations Officer of DMPI since 2011. He also leads Smart's Individual business segment. Prior to this, he was the Business Unit Head of the Digitel Group from 2001 to 2011. Prior to joining the Digitel Group, he was the Strategic Business Unit Head for Mobile Communications of Globe Telecom, Inc. He was also the Director for Brand Marketing-Greater China of Coca-Cola China, Limited, Hongkong and the Business Unit Head-Van den Bergh Foods of Unilever Philippines, Inc. Mr. Lim obtained his Bachelor of Science in Business Management from the Ateneo de Manila University.

The following is a list of directorships in other private and public companies of the directors/independent directors named below:

| Names of Companies   |
|--|
| Private  |
| Private AY Holdings, Inc. (Regular Director) GPL Holdings, Inc. (Regular Director) Great Life Financial Assurance Corp. (Regular Director) Financial Brokers Insurance Agency, Inc. (Regular Director/Chairman) Idar Director/Chairman) Uar Director/Chairman) Mailayan Insurance Company (Regular Director/Chairman) Malayan Insurance Company (Regular Director/Chairman) Majua Information Technology Center, Inc. (Regular Director/Chairman) Majua Information Technology Center, Inc. (Regular Director/Chairman) Moria Management, Inc. (Regular Director/Chairman) Moria Management, Inc. (Regular Director/Chairman) Moria Management, Inc. (Regular Director/Chairman) Pan Malayan Management and Investment Corporation (Regular Director/Chairman) Pan Malayan Management and Investment Corporation (Regular Director/Chairman) Pan Malayan Management and Investment Corporation (Regular Director/Chairman) Philippine Integrated Advertising Agency, Inc. (Regular Director/Ch |
| oration<br>poration  |

| Ray C. Espinosa | Digital Telecommunications Phils., Inc. (Regular Director)<br>Lepanto Consolidated Mining Company (Independent Director)<br>Manila Electric Company (Regular Director)<br>Metro Pacific Investments Corporation (Regular Director)<br>Philweb Corporation (Regular Director/Vice Chairman) | Beacon Electric Asset Holdings, Inc. (Regular Director)<br>Bonifacio Communications Corp. (Regular Director)<br>Cinegear, Inc. (Regular Director/Chairman)<br>Digitel Crossing, Inc. (Regular Director)<br>Hastings Holdings, Inc. (Regular Director)<br>Hastings Holdings, Inc. (Regular Director/Chairman)<br>Med Vision Resources, Inc. (Regular Director/ Chairman)<br>Media5 Marketing Corporation (Regular Director)<br>Metro Pacific Assets Holdings, Inc. (Regular Director)<br>Metro Pacific Assets Holdings, Inc. (Regular Director)<br>Metro Pacific Resources, Inc. (Regular Director)<br>NTT Communications Philippines Corporation (Regular Director)<br>Philippine Telecommunications Investment<br>Corp. (Regular Director)<br>Philistar Global Corporation (Regular Director)<br>Philippina Salobal Network Limited (Regular Director)<br>Pilipinas Global Network Limited (Regular Director)<br>SatVentures, Inc. (Regular Director)<br>SatVentures, Inc. (Regular Director)<br>Studio5, Inc. (Regular Director)<br>Studio5, Inc. (Regular Director/Chairman)<br>The Philippine Home Cable Holdings, Inc (Regular Director/Chairman)<br>Unitel Productions, Inc. (Regular Director/Chairman)<br>Winner Asset Holdings, Ltd. (Regular Director/Chairman)<br>Winner Asset Holdings, Ltd. (Regular Director) |
|-----------------|--|---|

# TERMS OF OFFICE

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

# FAMILY RELATIONSHIPS

None of the directors/independent directors and officers of the Company or persons nominated to such positions has any family relationships up to the fourth civil degree either by consanguinity or affinity, except Mr. James L. Go and Ms. Anabelle L. Chua who are relatives to the fourth civil degree by consanguinity.

# LEGAL PROCEEDINGS

The Company is not aware, and none of the directors/independent directors and officers or persons nominated for election to such positions has informed the Company, of any of the following events that occurred during the past five years:

- (a) any bankruptcy petition filed by or against any business of which a director/independent director or officer or person nominated for election as a director/independent director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or officer or person nominated for election as a director/independent director or officer, except as noted below;
- (c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or officer or person nominated for election as a director/independent director or officer in any type of business, securities, commodities or banking activities; and
- (d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director/independent director or officer or person nominated for election as a director/independent director or officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

The following is a description of the complaints in which our director and President and Chief Executive Officer, Mr. Napoleon L. Nazareno and our director and Corporate Secretary, Ms. Ma. Lourdes C. Rausa-Chan are respondents:

 Mr. Napoleon L. Nazareno and Ms. Ma. Lourdes C. Rausa-Chan, in their respective capacities as director and corporate secretary of Steniel Cavite Packaging Corporation, are impleaded as private respondents in a Supplemental Complaint docketed as OMB C-C-05-0473-1, filed by the Field Investigation of the Office of the Ombudsman ("OMB") before the OMB.

The Supplemental Complaint dated April 16, 2012 is for the alleged commission of: (a) violation of Section 3(e) of R. A. No. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); and (b) estafa through falsification of public documents in relation to Article 171 and Article 172 of the Revised Penal Code. The case relates to the alleged illegal and fraudulent acquisition by Mannequin International Corporation of several tax credit certificates (TCCs) from the One Stop Shop Inter Agency Tax Credit and Duty Drawback Center purportedly through the use of fake and spurious documents and the subsequent transfer of said TCC's to several transferee corporations, including Steniel Cavite Packaging Corporation.

Mr. Nazareno and Ms. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject TCCs and had accordingly filed their Counter-Affidavits on March 1, 2013 and March 5, 2013, respectively, seeking the dismissal of the Supplemental Complaint. The case is now pending resolution with the OMB.

2. Ms. Rausa-Chan and other former directors/officers and corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation are respondents in a Complaint docketed as OMB-C-C-04-0363-H (CPL No. 04-128), filed with OMB. The Complaint is for alleged: (a) violation of R. A. No. 3019 (otherwise known as the Anti-Graft and Corrupt Policies Act); (b) estafa through falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code (RPC); (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It relates to various TCCs (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The Complaint against Ms. Rausa-Chan involves the first two offenses only, in her capacity as Corporate Secretary of Metro Paper and Packaging Products, Inc.

Although Ms. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject TCCs, the OMB, through a Resolution dated March 6, 2012, found probable cause to charge Ms. Rausa-Chan, together with the other respondents, with several counts of Estafa Thru Falsification of Public and Official Documents and Violation of Section 3(e) of R. A. No. 3019. Ms. Rausa-Chan, thereafter, timely filed a Motion for Reconsideration dated June 30, 2012 seeking the reconsideration of the Resolution of the OMB. The said Motion for Reconsideration is still pending resolution with the OMB.

# Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees

Our Board of Directors is authorized under the By-Laws to create committees, as it may deem necessary. We currently have four Board committees, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, the purpose of which is to assist our Board of Directors. Each of these committees has a Board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the Board of Directors.

# Audit Committee

Our Audit Committee is composed of three members, all of whom are independent directors. As at the date of this report, the Audit Committee members are former Supreme Court Chief Justice Artemio V. Panganiban, Mr. Pedro E. Roxas and Mr. Alfred V. Ty. Mr. Setsuya Kimura and Mr. James L. Go, non-independent members of our Board of Directors, Mr. Roberto R. Romulo, a member of our Advisory Board/Committee, and Ms. Corazon de la Paz-Bernardo, a former member of our Board of Directors, serve as advisors to the Audit Committee. All of the members of our Audit Committee are financially literate and Ms. Corazon S. de la Paz-Bernardo is an accounting and financial management expert. She was a former Chairman and Senior Partner of PriceWaterhouse Coopers (PwC).

As provided for in our Audit Committee charter, any member of the audit committee may cause the Audit Aommittee advisor to be excluded from the committee's meetings, as such member deems appropriate in order for the committee to carry out its responsibilities, until the committee has completed discussion of the topic for which the

member requested the Audit Committee advisor to be excluded or until such member has withdrawn his request.

As provided for in the Audit Committee charter, the purpose of the Audit Committee is to assist our board of directors in fulfilling its oversight responsibility for: (i) PLDT's accounting and financial reporting principles and policies, and system of internal controls, including the integrity of PLDT's financial statements and the independent audit thereof; (ii) PLDT's compliance with legal and regulatory requirements; (iii) PLDT's assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks; and (iv) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the Audit Committee has the following duties and powers:

- review and evaluate the qualifications, performance and independence of the external auditors and its lead partner;
- select and appoint the external auditors and to remove or replace the external auditors;
- review and approve in consultation with the head of the internal audit organization and the head of the finance organization all audit and non-audit services to be performed by the external auditors and the fees to be paid to the external auditors for such services, and to ensure disclosure of any allowed nonaudit services in PLDT's annual report;
- periodically review fees for non-audit services paid to the external auditors and disallow non-audit services that will conflict with the external auditor's duties to PLDT or pose a threat to the external auditor's independence;
- ensure that the external auditors prepare and deliver annually its Statement as to Independence, discuss with the external auditors any relationships or services disclosed in such Statement that may impact the objectivity, independence or quality of services of said external auditors and take appropriate action in response to such statement to satisfy itself of the external auditor's independence;
- review the external auditor's internal quality-control procedures based on the external auditors' Statement submitted at least annually, any material issues raised by recent internal quality-control review or peer review of the external auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding 5 years, regarding one or more independent audits carried out by the external auditor and steps taken to deal with any such issues;
- ensure that the external auditors or the lead partner of the external auditors having the primary
  responsibility for the audit of PLDT's accounts is rotated at least once every five years or such shorter
  or longer period provided under applicable laws and regulations;
- advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;
- obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and
- resolve disagreements between management and the external auditors regarding financial reporting.

The Audit Committee has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

#### Audit Committee Report

Further to our compliance with applicable corporate governance laws and rules, our Audit Committee confirmed in its report for 2012 that:

- Each voting member of the Audit Committee is an independent director as determined by the Board of Directors;
- The Audit Committee had nine regular meetings during the year;

- The Audit Committee has reviewed and resolved to retain the existing audit committee charter;
- The Audit Committee likewise discussed with PLDT's internal audit group and independent auditors, SyCip Gorres Velayo & Co., or SGV, the overall scope and plans for their respective audits, and the results of their examinations, their evaluations of PLDT Group's internal controls and the overall quality of the PLDT Group's financial reporting;
- The Audit Committee has reviewed and approved all audit and non-audit services provided by SGV to the PLDT Group, and the related fees for such services, and concluded that the non-audit fees are not significant to impair their independence;
- The Audit Committee has discussed with SGV the matters required to be discussed by the prevailing applicable Auditing Standard, and has received written disclosures and the letter from SGV as required by the prevailing applicable Independence Standards (Statement as to Independence) and has discussed with SGV its independence from the PLDT Group and the PLDT Group's management;
- The Audit Committee has discussed with the President and CEO the PLDT Group top risks and the corresponding mitigation measures to address these key enterprise risks, and has received from PLDT Group's Enterprise Risk Management Officer periodic status reports on PLDT Group's enterprise risk management activities.
- In the performance of its oversight responsibilities, the Audit Committee has reviewed and discussed the audited consolidated financial statements of the PLDT Group as at and for the year ended December 31, 2012 with the PLDT Group's management, which has the primary responsibility for the financial statements, and with SGV, the PLDT Group's independent auditors, who are responsible for expressing an opinion on the conformity of the PLDT Group's audited consolidated financial statements with PFRS;
- Based on the reviews and discussions referred to above, in reliance on the PLDT Group's management and SGV and subject to the limitations of the Audit Committee's role, the Audit Committee recommended to the Board of Directors and the Board has approved, the inclusion of the PLDT Group's consolidated financial statements as at and for the year ended December 31, 2012 in the PLDT Group's Annual Report to the Stockholders and to the Philippine SEC on Form 17-A and U.S. SEC on Form 20-F; and
- Based on a review of SGV's performance and qualifications, including consideration of management's recommendation, the Audit Committee approved the appointment of SGV as the PLDT Group's independent auditors.

#### Governance and Nomination Committee

Our GNC is composed of five voting members, all of whom are regular members of our Board of Directors and two non-voting members. Three of the voting members are independent directors namely, former Chief Justice Artemio V. Panganiban, Mr. Pedro E. Roxas and Mr. Alfred V. Ty. Two are non-independent directors namely, Mr. Setsuya Kimura and Mr. Manuel V. Pangilinan who is the chairman of this committee. Mr. Menardo G. Jimenez, Jr. and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

The principal functions and responsibilities of our GNC are:

- 1. Oversee the development and implementation of corporate governance principles and policies;
- 2. Review and evaluate the qualifications of the persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board;
- 3. Identify persons believed to be qualified to become members of the Board and/or the Board committees;
- 4. Assist the Board in making an assessment of the board's effectiveness in the process of replacing or appointing new members of the Board and/or Board committees; and
- 5. Assist the Board in developing and implementing the board's performance evaluation process.

#### Executive Compensation Committee

Our ECC is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely former Chief Justice Panganiban, Mr. Pedro E. Roxas and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Setsuya Kimura and Mr. Manuel V. Pangilinan, who is chairman of this committee. Mr. Menardo G. Jimenez, Jr. is the non-voting member.

The principal functions and responsibilities of our ECC are:

- 1. Provide guidance to and assist the Board in developing a compensation philosophy or policy consistent with the culture, strategy and control environment of PLDT;
- 2. Oversee the development and administration of PLDT's executive compensation programs, including long term incentive plans and equity based plans for officers and executives; and
- 3. Assist the Board in the performance evaluation of and succession planning for officers, including the CEO, and in overseeing the development and implementation of professional development programs for officers.

#### Technology Strategy Committee

Our TSC is composed of five voting members and two non-voting members. The five voting members are nonindependent directors, Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Atty. Ray C. Espinosa, Mr. James L. Go, and Mr. Setsuya Kimura, and the two non-voting members are Mr. Oscar S. Reyes and Mr. Orlando B. Vea who are members of our Advisory Board/Committee.

The principal functions and responsibilities of our TSC are to assist and enable the Board to:

- 1. Review and approve the strategic vision for the role of technology in PLDT's overall business strategy, including the technology strategy and roadmap of PLDT;
- 2. Fulfill its oversight responsibilities for PLDT's effective execution of its technology related strategies; and
- 3. Ensure the optimized use and contribution of technology to PLDT's business and strategic objectives and growth targets.

Effective June 12, 2007, our Board of Directors dissolved the finance committee, since, for several years hitherto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our Board.

#### Advisory Committee

Our Advisory Board/Committee is composed of Mr. Roberto R. Romulo, Mr. Benny S. Santoso, Mr. Orlando B. Vea, Mr. Christopher H. Young, Mr. Oscar S. Reyes, and Mr. Washington Z. Sycip. The Advisory Board/Committee provides guidance and suggestions, as necessary, on matters deliberated upon during Board meetings.

# **EXECUTIVE COMPENSATION**

The following table is the list of the executive officers, including the CEO, and directors of PLDT as at September 30, 2013:

| Name   | Position(s)   |
|--|---|
| Manuel V. Pangilinan                               | Director, Chairman of the Board   |
| Napoleon L. Nazareno                               | Director, President and CEO   |
| Helen Y. Dee                                       | Director  |
| Ray C. Espinosa                                    | Director  |
| James L. Go  | Director  |
| Setsuya Kimura                                     | Director  |
| Rev. Fr. Bienvenido F. Nebres, S.J. <sup>(1)</sup> | Independent Director  |
| Hideaki Ozaki                                      | Director  |
| Pedro E. Roxas                                     | Independent Director  |
| Juan B. Santos                                     | Director  |
| Tony Tan Caktiong                                  | Director  |
| Alfred V. Ty                                       | Independent Director  |
| Ma. Lourdes C. Rausa-Chan                          | Director, Senior Vice President, Corporate Affairs and Legal Services Head,                 |
|  | Corporate Secretary and Chief Governance Officer  |
| Ernesto R. Alberto                                 | Senior Vice President, Enterprise and International Carrier Business Head                   |
| Anabelle L. Chua                                   | Senior Vice President, Corporate Finance and Treasury Head and Treasurer                    |
| Rene G. Bañez                                      | Senior Vice President, Supply Chain, Asset Protection and Management Head                   |
| Alejandro O. Caeg                                  | Senior Vice President, International and Carrier Business Head                              |
| Jun R. Florencio                                   | Senior Vice President, Internal Audit and Fraud Risk Management Head                        |
| Menardo G. Jimenez, Jr.                            | Senior Vice President, Human Resources Head and Business Transformation Office Head         |
| George N. Lim <sup>(2)</sup>                       | Senior Vice President, Network Services Assurance Head and Business Transformation Office - |
|  | Network Team Head   |
| Claro Carmelo P. Ramirez                           | Senior Vice President, Office of the President and CEO                                      |
| June Cheryl A. Cabal-Revilla                       | First Vice President, Financial Reporting and Controllership Head                           |

<sup>(1)</sup> Resigned effective September 25, 2012.

(2) Retired effective January 1, 2013.

The following table below sets forth the aggregate amount of compensation paid in 2012 and 2011 and estimated amount of compensation expected to be paid in 2013 to: (1) the President and CEO, Napoleon L. Nazareno and the four most highly compensated officers of PLDT, as a group, namely: Menardo G. Jimenez, Jr., Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan; and (2) all other executive officers, other officers and directors, as a group.

|  | 2013     | 2012          | 2011   |
|--|----------|---------------|--------|
|  | Estimate | Ad            | ctual  |
|  |          | (in millions) |        |
| President and CEO <sup>(1)</sup> and four most highly compensated executive officers:  |          |               |        |
| Salary <sup>(2)</sup>  | Php62    | Php58         | Php53  |
| Bonus <sup>(3)</sup>   | 16       | 15            | 13     |
| Other compensation <sup>(4)</sup>  | 53       | 65            | 43     |
|  | 131      | 138           | 109    |
| All other executive officers, other officers and directors as a group                  |          |               |        |
| (excluding the President and CEO and four most highly compensated executive officers): |          |               |        |
| Salary <sup>(2)</sup>  | 238      | 244           | 239    |
| Bonus <sup>(3)</sup>   | 61       | 62            | 61     |
| Other compensation <sup>(4)</sup>  | 283      | 264           | 214    |
|  | Php582   | Php570        | Php514 |

(1) The President and CEO receives compensation from Smart but not from PLDT.

(2) Basic monthly salary. (3)

Includes longevity pay, mid-year bonus, 13<sup>th</sup> month and Christmas bonus. (4)

Includes variable payand other payments. Variable pay is based on an annual incentive system that encourages and rewards both the individual and group team performance and is tied to the achievement of Corporate/Unit/Customer Satisfaction Objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. See Note 24 – Related Party Transactions – Compensation of Executive Officers of the PLDT Group to the accompanying audited consolidated financial statements for further discussion.

Each of the directors of the Company is entitled to a director's fee for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved an increase in director's board meeting attendance fees to Php200 thousand from Php125 thousand and board committee meeting attendance fees to Php75 thousand from Php50 thousand. The attendance fees for directors were last adjusted in July 1998. The ECC recommended the increase taking into consideration PLDT's profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that PLDT's directors' remuneration, consisting only of fees for meeting attendance, and/or retainer fees and profit share were below the median of directors' remuneration among participating companies in the survey.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of *per diems* paid to the directors for their attendance in Board and Board Committee meetings is included in other compensation in the above table. The total amount of *per diems* paid in 2012 and 2011 were approximately Php35 million and Php40 million, respectively. The total amount of *per diems* estimated to be paid in 2013 is approximately Php37 million.

There are no agreements between the PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the PLDT Group's retirement and incentive plans.

#### Long-Term Incentive Plan

Our long-term incentive plan, or LTIP, is a cash plan that is intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group, and administered by the ECC which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and taking into account such participant's seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The 2010 to 2012 LTIP, covering the period from January 1, 2010 to December 31, 2012, was presented to and approved by the ECC and the Board of Directors, and was based on profit targets for the covered performance cycle. The cost of 2010 to 2012 LTIP was determined using the projected unit credit method based on prevailing discount rates and profit targets. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at December 31, 2010, but based on our projections in 2011, the profit targets for the covered performance cycle were no longer achievable, thus, the accrued LTIP cost as at December 31, 2010 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. We currently do not expect to make any payouts under the 2010 to 2012 LTIP.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the nine months ended September 30, 2013 and 2012 amounted to Php1,278 million and Php1,250 million, respectively, and for the year ended December 31, 2012 amounted to Php1,491 million. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,657 million and Php1,491 million as at September 30, 2013 and December 31, 2012, respectively.

There are no other warrants or options held by PLDT's officers or directors either singly or collectively.

See Note 3 – Management's Use of Judgments, Estimates and Assumptions, Note 5 – Income and Expenses and Note 25 – Employee Benefits to the accompanying consolidated financial statements for related discussion.

## Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of PLDT's directors and officers are compensated, or are to be compensated, directly or indirectly.

# SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND EXECUTIVE OFFICERS

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding ownership of shares of PLDT's common stock as at October 31, 2013, of all shareholders known to us to beneficially own 5% or more of PLDT's shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT's common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's common stock.

| Title<br>of Class | Name and Address<br>of Record Owner and<br>Relationship With Issuer   | Citizenship               | Name of Beneficial<br>Owner and Relationship with<br>Record Owner | Number of<br>Shares Held of<br>Record | Percentage<br>of Class |
|-------------------|---|---------------------------|---|---------------------------------------|------------------------|
| Common            | Philippine Telecommunications<br>Investment Corporation <sup>(1)</sup><br>12th Floor Ramon Cojuangco Bldg.<br>Makati Avenue, Makati City                          | Philippine<br>Corporation | Same as Record Owner  | 26,034,263 <sup>(2)</sup>             | 12.05                  |
| Common            | Metro Pacific Resources, Inc. <sup>®)</sup><br>c/o Corporate Secretary<br>18th Floor, Liberty Center,<br>104 H. V. dela Costa St.<br>Salcedo Village, Makati City | Philippine<br>Corporation | Same as Record Owner  | 21,556,676 <sup>(2)</sup>             | 9.98                   |
| Common            | NTT Communications Corporation <sup>(4)</sup><br>1-1-6 Uchisaiwai-cho, 1-chome, Chiyoda-ku<br>Tokyo 100-8019, Japan   | Japanese<br>Corporation   | See Footnote (5)  | 12,633,487                            | 5.85                   |
| Common            | NTT DOCOMO, Inc. <sup>®</sup><br>41st Floor, Sanno Park Tower<br>2-11-1 Nagata-cho, Chiyoda-ku<br>Tokyo 100-6150, Japan   | Japanese<br>Corporation   | See Footnote (5)  | 22,796,902(7)                         | 10.55                  |
| Common            | PCD Nominee Corporation <sup>®)</sup><br>37/F Enterprise Building, Tower I<br>Ayala Avenue cor. Paseo de Roxas St.<br>Makati City                                 | Philippine<br>Corporation | See Footnote (8)  | 77,286,729                            | 35.77                  |
| Common            | J. P. Morgan Asset Holdings<br>(HK) Limited <sup>®)</sup><br>(various accounts)<br>20/F Chater House 8 Connaught Road<br>Central, Hongkong                        | HongKong<br>Corporation   | See Footnote (9)  | 43,285,347                            | 20.03                  |
| Common            | JG Summit Group <sup>(10)</sup><br>42/F Robinsons Equitable Tower<br>ADB Avenue corner Poveda Road<br>Ortigas Center, Pasig City                                  | Philippine<br>Corporation | See Footnote (10)   | 17,305,625                            | 8.01                   |

<sup>(1)</sup> Based on a resolution adopted by the Board of Directors of PTIC, the Chairman of the Board of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock or voting securities.

- In addition to the 26,034,263 shares and 21,556,676 shares of PLDT common stock owned on record by PTIC and Metro Pacific Resources, Inc., or MPRI, respectively, both of which are Philippine affiliates of First Pacific, 7,653,703 ADS, whose underlying common shares represents approximately 3.54% of the outstanding common stock of PLDT are owned by non-Philippine wholly-owned subsidiaries of First Pacific. The common shares and the underlying common shares of the ADS owned by PTIC, MPRI and the non-Philippine wholly-owned subsidiaries of First Pacific (referred to herein as First Pacific Group), collectively owned 25.57% of the outstanding common stock of PLDT as at October 31, 2013.
- <sup>(3)</sup> Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI in the June 14, 2013 Annual Meeting.
- <sup>(4)</sup> Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT Communications.
- In publicly available reports filed by NTT Communications and NTT DOCOMO, it is stated that because of NTT's ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DOCOMO, NTT, NTT Communications and NTT DOCOMO may be considered to constitute a "group" within the meaning of Rule 18.1(5)(C) of the Amended Implementing Rules and Regulations of the Philippine Securities Regulation Code. Therefore, each of them may be deemed to have beneficial ownership of the 43,96,642 shares in aggregate held by NTT Communications and NTT DOCOMO, which collectively represents 20.35% of the outstanding common stock of PLDT as at October 31, 2013.
- Based on publicly available information, NTT DOCOMO, is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DOCOMO, Mr. Hajime Kii or Mr. Mutsuo Yamanoto, is authorized to execute for and on behalf of NTT DOCOMO, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DOCOMO.
- <sup>(7)</sup> In addition to the 22,796,902 common shares owned on record by NTT DOCOMO, NTT DOCOMO also owns 8,533,253 ADRs whose underlying common shares represent approximately 3.95% of the outstanding common stock of PLDT. The common shares and the underlying common shares of the ADS owned by NTT DOCOMO collectively represents 14.50% of the outstanding common stock of PLDT as at October 31, 2013.

PCD is the registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders' meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients.

This account also includes 17,305,625 shares beneficially owned by JG Summit Group. Please refer to footnote 10.

Based on available information, none of the owners of the PLDT common shares registered under the name of PCD, owned more than 5% of PLDT's outstanding common stock as at October 31, 2013, except for JG Summit Group as provided above, Deutsch Bank Manila – Clients Account which owned approximately 8.02% of PLDT's outstanding common stock as of such date and The Hongkong and Shanghai Banking Corp. Ltd.–Clients, which owned approximately 9.14% of PLDT's outstanding common stock as of such date. PLDT has no knowledge if any beneficial owner of the shares under Deutsche Bank Manila-Clients and The Hongkong and Shanghai Banking Corp. Ltd.–Clients owned more than 5% of PLDT's outstanding common stock as at October 31, 2013.

<sup>(III</sup> JP Morgan Asset Holdings (HK) Limited holds shares as nominee of JP Morgan Chase Bank, successor depositary under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs evidencing ADSs, representing shares of common stock of PLDT (the "Deposit Agreement"). Under the Deposit Agreement, if the depositary does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depositary to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.

This account also includes 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DOCOMO and 7,653,703 shares of PLDT common stock underlying ADS beneficially owned by non-Philippine wholly-owned subsidiaries of First Pacific.

<sup>(10)</sup> The total shareholdings of JG Summit Group is 17,305,625 shares, of which 17,208,753 shares are beneficially owned by JGSHI, 86,723 shares are beneficially owned by Express Holdings, Inc., 10,148 shares are beneficially owned by Ms. Elizabeth Yu Gokongwei and 1 share is beneficially owned by Mr. James L. Go, all held on record by PCD Nominee Carporation, collectively representing 8.01% of the outstanding common stock of PLDT as at October 31, 2013. Based on a certification signed by a duly authorized officer of JGSHI, under the By-Laws of JGSHI, each of the Chairman and CEO of JGSHI (Mr. James L. Go) and President and Chief Operating Officer of JGSHI (Mr. Lance Y. Gokongwei) is authorized to vote the 17,208,753 common shares of PLDT owned by JGSHI and to appoint and/or sign provise in behalf of JGSHI in connection with the June 14, 2013 Annual Meeting.

As at October 31, 2013, approximately 82.34% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

The First Pacific and certain affiliates, or FP Parties, had beneficial ownership of approximately 26% in our outstanding common stock as at October 31, 2013. This is the largest block of our common stock that is directly or indirectly under common ownership. As at October 31, 2013, NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of our outstanding common stock. As a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties and/or, NTT Communications and/or NTT DOCOMO are able to influence our actions and corporate governance, including (i) elections of our directors; and (ii) approval of major corporate actions, which require the vote of common stockholders, among other things.

#### SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following are the number of PLDT common and preferred shares owned of record and/or beneficially by the directors/independent directors, CEO and other executive officers of PLDT as at October 31, 2013:

| Name of Record and Address  | Citizenship | Title of<br>Class | Number of shares <sup>(1)</sup> | Amount of<br>Holdings<br>(Based on par value) | Percentage<br>of Class |
|---|-------------|-------------------|---------------------------------|---|------------------------|
| Manuel V. Pangilinan<br>Chairman of the Board<br>7/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City                 | Filipino    | Common            | 244,450                         | Php1,222,250                                  | 0.113142               |
| Napoleon L. Nazareno<br>Director<br>President and CEO<br>7/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City         | Filipino    | Common            | 19,927 <sup>(2)</sup>           | 99,635  | 0.009223               |
| Helen Y. Dee<br>Director<br>3/F Grepalife Bldg.<br>Sen. Gil Puyat Ave., Makati City                                       | Filipino    | Common            | 98                              | 490   | 0.000045               |
| James L. Go<br>Director<br>43/F Robinson's Equitable Tower<br>ADB Avenue corner Poveda Road<br>Ortigas Center, Pasig City | Filipino    | Common            | 134,914                         | 674,570                                       | 0.062444               |

| Name of Record and Address   | Citizenship | Title of<br>Class | Number of shares <sup>(1)</sup> | Amount of<br>Holdings | Percentage<br>of Class |
|--|-------------|-------------------|---------------------------------|-----------------------|------------------------|
| Setsuya Kimura<br>Director<br>6/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City   | Japanese    | Common            | 1                               | 5                     | 0.000000               |
| Hideaki Ozaki<br>Director<br>4-12-22-301 Fukasawa<br>Setagaya-ku<br>Tokyo 158-0081, Japan  | Japanese    | Common            | 1                               | 5                     | 0.000000               |
| Pedro E. Roxas<br>Independent Director<br>7/F Cacho-Gonzales Bldg.,<br>101 Aguirre St., Legaspi Village<br>Makati City   | Filipino    | Common            | 231                             | 1,155                 | 0.000107               |
| Juan B. Santos<br>Director<br>Chairman, Social Security Commission<br>12/F SSS Building,<br>Ayala Ave., cor Herrera St.,<br>Makati City 1227   | Filipino    | Common            | 2                               | 10                    | 0.000001               |
| Alfred V. Ty<br>Independent Director<br>20/F GT Tower<br>Ayala Avenue, Makati City   | Filipino    | Common            | 1                               | 5                     | 0.000000               |
| Tony Tan Caktiong<br>Director<br>10/F Jollibee Plaza<br>Emerald Avenue, Ortigas Center<br>Pasig City   | Filipino    | Common            | 1                               | 5                     | 0.000000               |
| Ray C. Espinosa<br>Director<br>Regulatory Affairs and Policies Group<br>16/F Locsin Bldg., Ayala Avenue<br>cor. Makati Avenue, Makati City   | Filipino    | Common            | 18,743 <sup>(2)</sup>           | 93,715                | 0.008675               |
| Ma. Lourdes C. Rausa-Chan<br>Director<br>Corporate Secretary, Chief Governance<br>Officer and<br>Senior Vice President, Corporate Affairs and<br>Legal Services<br>9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa<br>Sts., Makati City | Filipino    | Common            | 699 <sup>(2)</sup>              | 3,495                 | 0.000324               |
| Artemio V. Panganiban<br>ndependent Director<br>1203 Acacia St., Dasmariñas Village<br>Vakati City   | Filipino    | Common            | 1                               | 5                     | 0.000000               |
| Ernesto R. Alberto<br>Executive Vice President,<br>Customer Sales and Marketing Group<br>7/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City  | Filipino    | Common            | -                               | -                     | _                      |
| saias P. Fermin<br>Executive Vice President<br>2LDT HOME Business<br>7/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City  | Filipino    | Common            | -                               | -                     | -                      |
| Anabelle L. Chua<br>Treasurer and Senior Vice President,<br>Corporate Finance and Treasury<br>26/F Smart Tower<br>Ayala Avenue, Makati City  | Filipino    | Common            | 12,078 <sup>(2)</sup>           | 60,390                | 0.005590               |
| Rene G. Bañez<br>Senior Vice President,<br>Supply Chain and Asset Protection and<br>Management Group<br>6/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City   | Filipino    | Common            | 1                               | 5                     | 0.000000               |

| Name of Record and Address  | Citizenship | Title of<br>Class | Number of shares <sup>(1)</sup> | Amount of<br>Holdings | Percentage<br>of Class |
|---|-------------|-------------------|---------------------------------|-----------------------|------------------------|
| Claro Carmelo P. Ramirez<br>Senior Vice President<br>Office of the President and CEO<br>7/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City                    | Filipino    | Common            | 11,500                          | 57,500                | 0.005323               |
| Menardo G. Jimenez, Jr.<br>Senior Vice President,<br>Human Resources,<br>Business Transformation Office<br>6/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City | Filipino    | Common            | 22                              | 110                   | 0.000010               |
| Jun R. Florencio<br>Senior Vice President, Internal Audit and<br>Fraud Risk Management<br>6/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa<br>Sts., Makati City           | Filipino    | Common            | 515 <sup>(2)</sup>              | 2,575                 | 0.000238               |
| Alejandro O. Caeg<br>Senior Vice President, International and<br>Carrier Business Head<br>9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa<br>Sts., Makati City           | Filipino    | Common            | 200 <sup>(3)</sup>              | 1,000                 | 0.000093               |
| June Cheryl A. Cabal-Revilla<br>First Vice President<br>Financial Reporting and Controllership<br>11/F Ramon Cojuangco Bldg.,<br>Makati Avenue, Makati City         | Filipino    | Common            | -                               | -                     | -                      |

(1) As at December 31, 2009, under PLDT's ESOP, all of the options to purchase shares of common stock of executive officers and directors listed in the table above had been exercised. No options have been granted to non-executive directors. All outstanding options were exercisable at an exercise price of Php814 per share and expired on December 10, 2009. All outstanding options were fully vested as at December 10, 2004.

<sup>(2)</sup> Includes PLDT common shares that have been lodged with the Philippine Central Depository, Inc.

<sup>(3)</sup> Shares Lodged with the Philippine Central Depository, Inc.

The aggregate number of shares of common stock directly and indirectly owned by directors, executive officers and advisors listed above, as at October 31, 2013, was 443,385, or approximately 0.205218% of PLDT's outstanding shares of common stock.

All outstanding shares of PLDT 10% Cumulative Convertible Preferred Stock Series A to Series FF, Series GG and Series HH which were issued in 2007, were redeemed and retired effective on January 19, 2012, August 30, 2012 and May 16, 2013, respectively.

#### Voting Trust Holders

To the best knowledge of the Board of Directors and Management of the Company, there are no persons who hold more than 5% of the Company's outstanding shares of Common Stock and Voting Preferred Stock under a voting trust or similar agreement.

#### **Changes in Control**

On July 5, 2011, the Board of Directors of PLDT (the **"Board"**) approved the amendments to the Seventh Article of the Articles of Incorporation of the Company consisting of the sub-classification of the authorized Preferred Capital Stock into: One Hundred Fifty Million (150,000,000) shares of Voting Preferred Stock of the par value of One Peso (Php1.00) each and Eight Hundred Seven Million Five Hundred Thousand (807,500,000) shares of Non-Voting Serial Preferred Stock of the par value of Ten Pesos (Php10.00) each, and other conforming amendments (the **"Amendments"**). In the Special Meeting of the Stockholders held on March 22, 2012, the Amendments were approved by the holders of more than two thirds (2/3) of the outstanding capital stock (common and preferred) of PLDT. The Amended Articles of Incorporation containing the Amendments (the **"Amended Articles"**) was approved by the Securities and Exchange Commission (the **"SEC"**) on June 5, 2012.

Following the approval of the Amended Articles by the SEC, PLDT's voting capital stock consisted of the Common Stock and Voting Preferred Stock. On October 12, 2012, the Board approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a wholly-owned company of the PLDT Beneficial Trust Fund. On October 15, 2012, PLDT and BTFHI executed a Subscription Agreement pursuant to which PLDT agreed to issue to BTFHI 150 million shares of Voting Preferred Stock subscription price of P1.00 per share, or a subscription price of Php150 million. On October

16, 2012, PLDT issued to BTFHI 150 million shares of Voting Preferred Stock. The authorized shares, outstanding shares and voting shares of PLDT as at the Record Date are set out in the table below:

|                                   | As o                 | As of October 31, 2013 (Record Date) |               |  |  |  |
|-----------------------------------|----------------------|--------------------------------------|---------------|--|--|--|
|                                   | Number of Authorized | Number of Authorized                 |               |  |  |  |
|                                   | Shares               |                                      | Shares        |  |  |  |
| Class of Shares                   | (in millions)        | Par Value                            | (in millions) |  |  |  |
| Common Stock                      | 234.0                | Php5.00                              | 216,06        |  |  |  |
| Voting Preferred Stock            | 150.0                | Php1.00                              | 150.00        |  |  |  |
| Non-Voting Serial Preferred Stock | 387.5                | Php10.00                             | 300.00        |  |  |  |
| Total                             | 771.5                | -                                    | 666.06        |  |  |  |

Except as described above, there has been no change in control of the Company since the beginning of 2012 and the Company is not aware of any existing, pending, or potential transaction which may result in such a change in control.

#### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

PLDT, in the ordinary course of business, engages in transactions with stockholders, its subsidiaries and affiliates, and directors and officers and their close family members.

Except for the transactions discussed in *Note 24 – Related Party Transactions* to the accompanying consolidated financial statements, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner; or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

# **DESCRIPTION OF DEBT**

## LONG-TERM DEBT

As at September 30, 2013, long-term debt consists of:

|  |  | (in m     | nillions)         |
|--|--|-----------|-------------------|
| Export Credit Agencies-Supported Loans:     US\$ LIBOR + 0.55% to 1.80%       China Export and Credit Insurance Corporation, or Sinosure     US\$ LIBOR + 0.55% to 1.80%       ExportReditInamnden, or EKN     1.90% to 3.79% and US\$ LIBOR + 0.30% to 0.35%       EKN and AB Svensk Exportkredit, or SEK     3.9550%       Finnvera, Pic, or Finnvera     2.99% and US\$ LIBOR + 1.35%       Others     US\$ LIBOR + 0.35% to 0.40 | (Unaudited)  |           |                   |
| U.S. Dollar Debts:   |  |           |                   |
| Export Credit Agencies-Supported Loans:  |  |           |                   |
|  |  | US\$133   | Php5,804          |
|  | 1.90% to 3.79% and US\$ LIBOR + 0.30% to 0.35%                             | 98        | 4,259             |
|  |  | 59        | 2,571             |
|  |  | 30        | 1,289             |
| Others   | US\$ LIBOR + 0.35% to 0.40   | 1         | 34                |
|  |  | 321       | 13,957            |
|  | 8.35%  | 233       | 10,130            |
|  |  |           |                   |
|  |  | _         |                   |
|  |  | 131       | 5,713             |
| Others   | US\$ LIBOR + 0.42% to 1.90%  | 685       | 29,833            |
|  |  | US\$1,370 | Php59,633         |
| Philippine Peso Dehts:   |  |           |                   |
| Corporate Notes  | 5.3300% to 7.7946%   |           | Php29,900         |
| Term Loans:  |  |           |                   |
| Unsecured Term Loans   | 3.9250% to 7.4292%, PDST-F + 0.30% and BSP overnight rate + 0.30% to 0.50% |           | 19,920            |
|  |  |           | 49,820            |
| Takal lang kawa dalak  |  |           |                   |
| Total long-term debt<br>Less portion maturing within one year  |  |           | 109,453<br>14,252 |
| Noncurrent portion of long-term  |  |           | Php95,201         |
| Noncurrent portion of long-term  |  |           | F11p95,201        |

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at September 30, 2013 are as follows:

|                     | U.S. Dolla     | U.S. Dollar Debt |        |         |
|---------------------|----------------|------------------|--------|---------|
| Year                | In U.S. Dollar | In Php           | In Php | In Php  |
|                     |                | (in mil          | lions) |         |
| 2013 <sup>(1)</sup> | 63             | 2,718            | 1,244  | 3,962   |
| 2014                | 286            | 12,435           | 1,290  | 13,725  |
| 2015                | 271            | 11,807           | 397    | 12,204  |
| 2016                | 255            | 11,113           | 8,352  | 19,465  |
| 2017 and onwards    | 502            | 21,870           | 38,569 | 60,439  |
|                     | 1,377          | 59,943           | 49,852 | 109,795 |

<sup>(1)</sup> October 1, 2013 through December 31, 2013.

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

# **CORPORATE GOVERNANCE**

PLDT has long committed itself to very high standards of corporate performance in order to achieve sustained growth and profitability and create value for its shareholders and stakeholders. It is a commitment that, in turn, demands adherence to the highest corporate governance standards and practices. In as much as PLDT is a public company and its common shares are listed in the PSE, while its ADSs are listed in the NYSE, PLDT finds itself in the unique position of being the only telecommunication company in the Philippines that is subject to, and must comply with, the corporate governance requirements of both the Philippines and the United States. These requirements are set forth under various laws, rules and regulatory issuances, including the Philippine Revised Code of Corporate Governance, the PSE Corporate Governance Guidelines, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, and the NYSE Listing Rules. In addition, PLDT as an associated company of First Pacific, which is listed in the Hong Kong Stock Exchange, also looks to the corporate governance standards of Hong Kong for guidance and benchmarking purposes.

PLDT benchmarks against recognized international best practices and monitors developments in corporate governance in order to continue to elevate the Company's CG structures, policies and processes in accordance with appropriate global standards. Most importantly, beyond compliance, PLDT is endeavoring to promote an ethical corporate culture guided by the principles of accountability, integrity, fairness, and transparency.

#### GOVERNANCE STRUCTURES

#### Board of Directors

Our Board of Directors, or Board, has the primary responsibility for ensuring principled business conduct in pursuit of promoting and protecting the interest of the Company, its stockholders, and all other stakeholders. Our Board functions within the scope of its powers and authorities provided in applicable laws, and PLDT's By-Laws, and conducts itself in accordance with Company policies such as the PLDT Manual on Corporate Governance, or CG Manual, and the PLDT Code of Business Conduct and Ethics, or Code of Ethics.

At the end of September 2013, our Board had 13 members, each of whom we believe to be highly regarded in their respective fields and/or industry, who bring together complementary skills and expertise, and the requisite independence, probity and diligence in the exercise of their fiduciary duties. Our Board has three independent directors, former Supreme Court Chief Justice Artemio V. Panganiban<sup>1</sup>, Mr. Pedro E. Roxas and Mr. Alfred V. Ty who have been selected on the basis of specific independence criteria set out under applicable laws and rules, in our By-Laws and CG Manual. A majority of the directors are non-executive directors and only three directors are at the same time company executives.

The position of Chairman of the Board is separate from that of the CEO. PLDT Chairman Manuel V. Pangilinan and PLDT President and CEO Napoleon L. Nazareno nonetheless share the responsibility of elevating good corporate governance and principled performance to a high strategic priority for the Company.

At the start of the service of a new director, the Chairman, President and CEO, Chief Financial Officer, Corporate Secretary and Chief Governance Officer give a newly appointed director a briefing on the Company's structure, business and the responsibilities of the Board and its Committees and how each operates. The new director is also furnished with copies of all relevant information about the Company and policies applicable to the directors, including the Company's Articles, By-Laws, Annual Report, CG Manual, Code of Ethics and the Charters of the Board Committees. Updates on business and governance policies and requirements principally from the Philippine SEC, PSE, the U.S. SEC and the NYSE, and new laws applicable or relevant to the Company and its business, particularly on financial reporting and disclosures and corporate governance, are presented in Board meetings or furnished to the directors.

Our CG Manual assures that our Directors, both new and currently serving, have access to independent professional advice, at the Company's expense, as well as access to management as they may deem necessary to carry out their duties.

PLDT holds annual corporate governance enhancement sessions for its Directors which provide an opportunity for our leadership to interact with international experts and keep abreast with global developments and best practices in corporate governance and ethics. The GNC recommends the content and speakers for these sessions. All of the current directors have undergone corporate governance orientation and a majority of the Board has attended at least one of the six corporate governance enhancement sessions organized since 2007. Our Directors are also updated

<sup>&</sup>lt;sup>1</sup> Elected as independent director effective April 23, 2013.

on the latest technology trends and developments that have an impact on the Company's strategy through technology briefings organized by the TSC.

To perform its mandate, our Board holds monthly meetings, the schedule of which is determined at the beginning of the year. At least one meeting is devoted to discussions with senior management of the strategic plans and budget, and the enterprise risk report prepared by senior management through the Group Enterprise Risk Management Department, which has the responsibility to promulgate, encourage and practice an integrated risk management framework for the organization, focusing on ensuring that critical risks are identified, evaluated, treated and monitored across all functions and units within the PLDT Group. Once every quarter, our Board reviews the quarterly financial reports. Our Board also periodically reviews Board Committee reports, business operations updates from the heads of our three business segments and network and technology strategic plans.

Our Board is committed to ensure the continuity of executive leadership as a critical factor in sustaining the success of the PLDT Group. To this end, a succession planning process referred to as Leadership Succession Planning and Development has been established. This enterprise-wide process covers senior management positions, including the President and CEO. Reflecting the significance that the Chairman of the Board of Directors attaches to succession planning, the First Pacific Leadership Academy was reorganized to facilitate the succession planning process within the PLDT Group and other companies affiliated with First Pacific. The PLDT Board's involvement in Leadership Succession Planning and Development is performed through its Executive Compensation Committee, which reviews and updates the criteria for employment and promotion, as well as any training and development plans for senior management, and keeps track of their performance and development, and reviews their potential career paths.

In 2012, our Board held 15 meetings. The Chairman of the Board, the President and CEO, and five other Directors attended all Board meetings. At least one independent director was present in all the meetings. The Chairman of the Audit Committee<sup>2</sup> was present in the annual stockholders' meeting as well as in the special stockholders' meeting on March 22, 2012. Except for one Director, all of the other Directors each attended more than seventy five per cent (75%) of the meetings. The total amount of *per diem* provided for the Board of Directors in 2012 was Php28.6 million<sup>3</sup>.

#### **Board Committees**

#### Advisory Committee

Our Board is ably assisted by an Advisory Committee. The diversity of the expertise, knowledge and experience of these advisors serves to complement that of the Board. The Advisory Committee provides guidance and suggestions, as necessary, on matters deliberated upon during Board meetings. The total *per diem* given to the members of the Advisory Committee in 2012 was Php15.8 million<sup>4</sup>.

To assist in the performance of the Board's responsibilities and aid in ensuring compliance with the principles of good corporate governance, our Board is supported by four standing committees namely, the Audit Committee, the GNC, the ECC, and the TSC, whose specific responsibilities and functions are set forth in their respective written charters.

#### Audit Committee

The integrity of the Company's accounting and financial reporting principles and policies, and system of internal controls, including the integrity of the Company's financial statements and the independent audit thereof are essential components of PLDT's corporate governance and are matters within the Board's oversight responsibilities. The Audit Committee assists the Board in this key task and provides support to the Board in discharging its oversight responsibilities over the Company's compliance with legal and regulatory requirements, its assessment and management of enterprise risks, its audit process, and the performance of the Company's internal audit organization and external auditor (including the external auditor's qualifications and independence). The Audit Committee is composed of three independent directors, and four advisors. Each Audit Committee member is financially literate and one of the advisors is a certified public accountant with financial management expertise. The charter of the Audit Committee may be viewed and downloaded from the PLDT website through the following link:

http://www.pldt.com/about/management/Documents/Audit%20Committee%20Charter.pdf

<sup>&</sup>lt;sup>2</sup> Rev. Fr. Bienvenido Nebres, S.J., who resigned on September 25, 2012, was the chairman of the Audit Committee at the time that these two stockholders' meetings were held

<sup>&</sup>lt;sup>3</sup> Php200,000 per diem for each director, for every meeting attended.

<sup>&</sup>lt;sup>4</sup> Php200,000 per diem for each member, for every meeting attended.

The Audit Committee's activities in 2012 with respect to our independent auditors, SGV, included discussions on SGV's report on the results of the integrated audit of PLDT's and its subsidiaries' 2011 financial statements prepared in accordance with the PFRS and IFRS and the internal controls over financial reporting, as well as the results of internal and external quality reviews required on SGV. Also discussed were SGV's required communications to the Audit Committee, as well as their independence from PLDT, within the meaning of the Securities Act of the Philippine SEC and U.S. SEC.

The Audit Committee also reviewed and approved the following:

- SGV's engagements in International Standard on Assurance Engagements (ISAE) No. 3402, "Assurance Reports on Controls at a Service Organization", Type B Service Audit of ePLDT's Vitro Data Center, as required by the latter's customer, Accenture, and financial statements audit of CURE as of and for the period ended June 30, 2012, in connection with NTC's requirements relating to the divestment plan for CURE as committed by PLDT in its acquisition of Digitel;
- Engagement of E&Y Australia to perform consulting service regarding support on Customer Needs-Based Segmentation Project for Smart, and the engagement of E&Y Singapore to perform tax services for Smart's subsidiaries; and
- Engagement of PwC member firm, Isla Lipana & Co., to perform Business Process Alignment Project, and provide manpower services for Sarbanes-Oxley Act Section 404 (SOX 404) Compliance Process Documentation for DMPI.

The Audit Committee conducted an evaluation of SGV's performance for 2011, and resolved to re-appoint SGV as PLDT's independent auditors for the year 2012, and reviewed SGV's integrated plan for the audit of the 2012 financial statements and review of ICFR of PLDT and its subsidiaries.

As regards the internal auditor, the Audit Committee reviewed, noted or approved the Internal Audit and Fraud Risk Management Group (IAFRMG)'s performance report for the year 2011, the Internal Audit Plan for 2012 (original and updated) and its alignment with business risks, IAFRMG Head's statement of compliance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA), and required confirmation of the organizational independence of the Internal Audit organization, and resolved to retain the existing PLDT Internal Audit Charter. The Audit Committee also discussed the Internal Audit's report on PLDT Group's SOX 404 Compliance – Management's Overall Assessment and Conclusions as of December 31, 2011, the periodic status reports submitted by Internal Audit regarding PLDT Group's SOX 404 readiness and compliance as of year-end 2011 and as of year-end 2012, and the major internal audit and fraud risk management activities and accomplishments, including the internal audit organizational updates.

With regard to financial reporting and controls, the Audit Committee, together with PLDT Finance officers, conducted a review of PLDT's audited consolidated financial statements for 2011 prepared in accordance with PFRS and IFRS, and the final results and reports of SGV on its integrated audit of 2011 PFRS and IFRS financial statements and ICFR. The Audit Committee reviewed and approved the PLDT Group's 2011 Annual Report on Form 17-A and Form 20-F for Philippine and U.S. SEC filing, respectively. It also reviewed and discussed with Finance officers, PLDT's unaudited interim consolidated financial results and reports for the three months ended March 31, 2012, the six months ended June 30, 2012, and the nine months ended September 30, 2012.

With regard to governance, general internal controls and risk management, the Audit Committee reviewed and approved the 2011 PLDT Audit Committee Report for inclusion in the Annual Report and conducted a self-evaluation of the Audit Committee's performance for the year 2011. It reviewed and discussed with the Corporate Secretary, General Counsel and Chief Governance Officer the status of the Company's compliance with regulations and applicable laws and updates on significant legal matters, the periodic status reports on whistleblowing complaints received by the CGO, as well as CGO's report on the statistics and effectiveness of, and identified system improvements to the existing Whistleblowing Policy and Procedure. The Audit Committee also discussed with the President and CEO the PLDT Group top risks from the CEO's perspective, and the corresponding mitigation measures to address these key enterprise risks, and reviewed the Group Enterprise Risk Management Officer's periodic status reports on PLDT Group's enterprise risk management activities.

Discussions with relevant PLDT business and operational unit heads were also conducted on the following matters:

- updates on Information Technology (IT) Group transformation and directions;
- major HR-related risks and the corresponding measures taken to address such risks;

- updates on service delivery process, quality of service, and actions taken on outstanding audit issues;
- updates on relevant tax rulings; and
- updates on results of customer experience surveys and related activities.

The Audit Committee likewise reviewed and approved the PLDT Disclosure on SEC Form 17-C in connection with the Phil. SEC Memorandum No. 4-2012, "SEC Guidelines in the Performance Assessment of Audit Committees", reviewed and resolved to retain the existing PLDT Audit Committee Charter, reviewed and approved the PLDT Audit Committee's semi-annual reports of activities during 2012 and issued periodic written updates to the Audit Committee of First Pacific regarding significant items discussed during PLDT Audit Committee meetings in 2012.

The Audit Committee had nine (9) meetings for the year 2012 and a total of Php4.20 million was paid as *per diem* to its members and advisors who attended the meetings<sup>5</sup>.

#### Governance and Nomination Committee

The GNC oversees the development and implementation of corporate governance principles and policies as part of its governance function. It also provides assistance to the Board in making an assessment of the Board's effectiveness in the process of replacing or appointing new members of the Board and/or Board Committees, and in developing and implementing the Board's performance evaluation process. As part of its nomination function, it reviews and evaluates the qualifications of the persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. In addition to this, it identifies persons potentially qualified to become members of the Board and/or the Board Committees.

The GNC is composed of five voting members, three of whom are independent directors and the other two are nonexecutive directors. The GNC also has three non-voting members composed of an independent member of the Advisory Committee<sup>5</sup>, the Human Resources Group Head and the Chief Governance Officer of the Company. The Charter of the GNC may be accessed and downloaded from the PLDT website through the following link:

http://www.pldt.com/about/management/Documents/Governance%20and%20Nomination%20Committee%20Char ter.pdf

In 2012, the GNC screened and identified nominees for election as directors/independent directors at the PLDT annual stockholders' meeting. It also reviewed the list and qualifications of PLDT officers for re-appointment at the organizational meeting of the Board of Directors.

In the performance of its governance function, the GNC discussed and evaluated the results of the Board Assessment for 2011 and the GNC Evaluation/Self-Assessment. The consolidated results of the Board Assessment, along with the recommended actions, the GNC Self-Assessment results and Report on Activities for 2011 were submitted to and noted by the Board.

The GNC also reviewed and monitored the status of whistleblowing reports, disclosures to regulators, updates on regulatory developments and other reports of the CGO. It had an opportunity to hear from the corporate governance officers from PLDT subsidiaries and affiliates about the adoption and implementation of, and innovations in, corporate governance practices by these companies. The GNC also received and discussed reports pertaining to results of corporate governance ratings from domestic and international rating agencies.

The GNC guided the development of PLDT's Guidelines on Related Party Transactions which was issued on May 24, 2012 as Administrative Order No. 2137-12. The GNC also discussed PLDT's General Practice (GP) No. GP-12-002 on Stakeholder Engagement that was issued on May 16, 2012, which embodies the Company's modes of engagement with various stakeholders, including customers, shareholders/investment community, employees, suppliers, government/regulators, media, industry and communities. The GP on Stakeholder Engagement is in line with PLDT's commitment to deal with stakeholders in accordance with its core business principles of integrity, transparency, fairness, and accountability.

Finally, the GNC continues to support the efforts at ethical culture building in the Company and it took a direct hand in the determination of content and selection of the speaker for the CG Enhancement Sessions for Directors and Officers for 2012 and selecting themes and designs for internal communication materials for 2013.

<sup>&</sup>lt;sup>5</sup> Php75,000 per diem for each director, for every meeting attended.<sup>5</sup> Until May 7, 2013, when Former Chief Justice Panganiban, who was elected as independent director on April 23, 2013, was appointed as a regular independent member of the GNC.

The GNC held three meetings in 2012 and a total of Php1.65 million was paid as *per diem* to its members who attended the meetings<sup>6</sup>.

#### Executive Compensation Committee

The ECC provides guidance and assistance to the Board with respect to the development of a compensation philosophy consistent with the culture, strategy and control environment of the Company. It also oversees the development and administration of the Company's executive compensation programs and assists the Board in the areas of performance evaluation, succession planning and the professional development programs for officers. The ECC is composed of five voting members, three of whom are independent directors, and the other two are non-executive directors. The ECC also has one non-voting member, who is the head of the Human Resources Group of the Company. The Charter of the ECC may be viewed and downloaded from the PLDT website through the following link:

#### http://www.pldt.com/about/management/Documents/Executive%20Compensation%20Committee%20Charter.pdf

In 2012, the ECC discussed and approved the discretionary pay for officers and executives for 2011 performance (in lieu of the 2011 variable pay), the 2012 variable pay targets and the corresponding variable pay payout levels, and the cancellation of the 2010-2012 Long Term Incentive Plan. A discretionary payout was instead approved and paid in 2012. The ECC also discussed and approved the continuation of the 2010-2012 LTIP of then PLDT subsidiary SPi and to revisit the 2010-2012 LTIP of ePLDT and PLDT Global Corporation. Finally, the ECC discussed and approved the presentation of the new 2012-2014 LTIP to the Board for the latter's approval and the 2012 merit increase for officers and executives.

The ECC held two meetings in 2012 and a total of Php825 thousand was paid as *per diem* to its members who attended the said meetings.<sup>7</sup>

#### Technology Strategy Committee

The TSC assists the Board in reviewing and approving the strategic vision for the role of technology in the Company's overall business strategy, fulfilling its oversight responsibilities for the Company's effective execution of its technology-related strategies, and ensuring the optimized use and contribution of technology to the Company's strategic objectives and growth targets. The TSC is composed of five voting members and two non-voting members. Under the charter of the TSC, at least one member of the TSC must have at least a general knowledge or understanding of the technologies relevant to the Company's line of business. A copy of the Charter of the TSC may be viewed and downloaded from the PLDT website through the following link:

http://www.pldt.com/about/management/Documents/Technology%20Strategy%20Committee%20Charter.pdf

The TSC had two meetings in 2012. The first meeting was on prospects and plans regarding 3G and LTE technologies, Over the Top Providers (OTTP), Location-based Services and Cloud Computing. In the second meeting, the TSC discussed updates on the PLDT Technology Roadmap, and the PLDT Group's Cloud Deployment. The gains on synergies with Digitel and *Sun Cellular* were also discussed in the second meeting. A total of Php1.05 million was given as *per diem* to its members who attended the meetings<sup>8</sup>.

#### President and CEO

The President and CEO provides leadership for management in developing and implementing business strategies, plans and budgets. He ensures that the business and affairs of the Company are managed in a sound and prudent manner and operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts. The President and CEO, with the assistance of the rest of PLDT's management, also has the responsibility to provide the Board with a balanced, understandable and accurate account of the Company's performance, financial condition, results of operations and prospects, on a regular basis.

<sup>&</sup>lt;sup>6</sup> Php 75,000 per diem for each director, for every meeting attended.

<sup>&</sup>lt;sup>7</sup> Php 75,000 per director for each meeting attended. <sup>8</sup> Php75,000 per director for each meeting attended.

#### Internal Audit Organization

PLDT has an internal audit organization that determines whether our structure of risk management, control and governance processes, as designed and represented by management, are adequate and functioning to ensure that:

- 1. Risks are appropriately identified managed, and/or reported;
- 2. Significant financial, managerial, and operating information are accurate, reliable and timely;
- 3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- 4. Resources are acquired economically, used efficiently and adequately protected;
- 5. Programs, plans and objectives are achieved;
- 6. Quality and continuous improvement are fostered in our control processes; and
- 7. Significant legislative or regulatory issues impacting us are recognized and addressed appropriately.

To provide for the independence of the internal audit organization, its personnel report to the head of the internal audit organization, being the Chief Audit Officer/Internal Audit Head, who reports functionally to the Audit Committee and administratively to the President and CEO. The Chief Audit Officer is accountable to management and the Audit Committee in the discharge of his duties and is required to:

- 1. Provide annually an assessment on the adequacy and effectiveness of our processes for controlling our activities and managing our risks;
- 2. Report significant issues related to the processes of controlling our activities, including potential improvements to those processes, and provide information concerning such issues; and
- 3. Periodically provide information on the status and results of the annual internal audit plan and the sufficiency of our internal audit organization's resources.

The Company's internal audit organization has a charter approved by the Audit Committee that complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors, in the discharge of its scope of work and responsibilities.

#### Chief Governance Officer

The CG compliance system established in the CG Manual includes the designation by the Board of a Chief Governance Officer who reports to the Chairman of the Board and the GNC. The primary responsibilities of the Chief Governance Officer include monitoring compliance with the provisions and requirements of corporate governance laws, rules and regulations, reporting violations and recommending the imposition of disciplinary actions, and adopting measures to prevent the repetition of such violations.

In addition, the Chief Governance Officer assists the Board and the GNC in the performance of their governance functions, including their duties to oversee the formulation or review and implementation of the corporate governance structure and policies of the Company, the establishment of an evaluation system to verify and measure compliance with the CG Manual in relation to related laws, rules and regulations, and to oversee the conduct of a self-assessment of the performance and effectiveness of the Board, the Board Committees, and individual Board members in carrying out their functions.

#### Corporate Governance Office

The CGO is responsible for the continuing development, drafting, issuance and review of appropriate corporate governance policies, attending to reports received through the whistleblowing facility, addressing queries and providing opinions or guidance on corporate governance matters to operating units, initiating enforcement actions to ensure compliance with corporate governance policies, and maintaining a corporate governance education and communication program that sees to the development of the proper knowledge, skills, attitudes, and habits that would promote voluntary observance of corporate governance policies.

#### MANUAL ON CORPORATE GOVERNANCE

The PLDT CG Manual was approved and adopted by the Board of Directors on March 26, 2010 pursuant to Philippine SEC Memorandum Circular No. 6 Series of 2009 or the Revised Code of Corporate Governance. It superseded the CG Manual approved and adopted on September 24, 2002, as amended on March 30, 2004 and January 30, 2007. The CG Manual sets forth the fundamental framework on corporate governance. Together with our Articles of Incorporation and By-Laws, it sets our CG structures which establish responsibilities, confer the necessary authority and provide adequate resources for the execution of such responsibilities.

In compliance with the Revised Code of Corporate Governance of the Philippine SEC and consistent with the relevant provisions of the SRC and Corporation Code of the Philippines, PLDT's CG Manual covers the following key areas:

- the composition of the Board of Directors as well as the qualifications and grounds for disqualification for directorship;
- the requirement that at least 20% of the membership of the Board of Directors, and in no case less than two members, must be independent directors and the standards/criteria for the determination of independent directors;
- the duties and responsibilities of the Board of Directors and the individual directors;
- the manner of conduct of Board meetings including the requirement to have an independent director present in every meeting to promote transparency and the need to have an executive session for non-executive and independent directors;
- establishment of board committees, specifically, the Audit Committee, the Executive Compensation Committee, and the Governance and Nomination Committee, including the composition and the principal duties and responsibilities of such committees, as well as the requirement for each Board committee to have its own charter;
- the role of the Chairman as the leader of the Board and as the prime mover in ensuring compliance with, and the performance of, corporate governance policies and practices;
- the role of the President/CEO in ensuring that the Company's business affairs are managed in a sound and prudent manner and that operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;
- the duties and responsibilities of the Corporate Secretary/Assistant Corporate Secretary in terms of the support services that they need to provide the Board in upholding sound corporate governance;
- the duties and responsibilities of the head of internal audit organization that would provide the Board of Directors, management and shareholders with reasonable assurance that the Company's key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;
- the functions of the independent auditors that would reasonably ensure an environment of sound corporate governance as reflected in the Company's financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of financial statements;
- the requirement to appoint a Chief Governance Officer and the duties and responsibilities of such Chief Governance Officer including the establishment of an evaluation system to determine and measure compliance with the provisions of our CG Manual;

- the duty of the Board of Directors to promote and uphold stockholders' rights, such as, the right to
  vote, pre-emptive right, the right to inspect corporate books and records, the right to timely receive
  relevant information, the right to dividends, and the appraisal right;
- the requirement for the Board to explore and implement steps to reduce excessive or unnecessary costs that impede stockholders' participation and to act with transparency and fairness at the annual and special stockholders' meetings;
- the Company's undertaking to disclose material information promptly and accurately, as well as the imposition of reasonable rules regarding the treatment and handling of material non-public information; and
- the establishment of an appropriate evaluation system for purposes of monitoring and assessing compliance with the CG Manual and other applicable laws and administrative issuances.

#### CODE OF ETHICS AND OTHER POLICIES

The Code of Ethics was approved by the Board on March 30, 2004 and subsequently updated on July 11, 2006. The Code of Ethics sets out the Company's business principles and values and aims to promote a culture of good corporate governance. It provides standards that govern and guide all business relationships of PLDT, its directors, officers and employees, especially with respect to the following:

• Compliance with applicable laws, rules and regulations, including anti-graft and anti-corruption laws;

- Ethical handling of conflicts of interest, corporate opportunities and confidential information;
- Protection and proper use of Company assets;
- Fair dealing with employees, customers, service providers, suppliers, and competitors;
- Compliance with reporting and disclosure obligations to the relevant regulators and to investors;
- Compliance with disclosure and financial reporting controls and procedures;
- Assessment and management of risks involved in business endeavors; and
- Adoption of international best practices of good corporate governance in the conduct of business.

The Company also has other policies adopted by the Board to provide both general and specific guidelines that complement the Code of Ethics.

- a. Conflict of Interest Policy approved on October 24, 2005. This policy aims to ensure that work-related actions of PLDT's directors, officers, employees and consultants are based on sound business principles and judgment devoid of bias or partiality. It enjoins all employees to be aware of the possibility of such bias and partiality in dealings with various entities or individuals in the course of or in relation to their work. The policy likewise mandates that employees who find themselves in a possible conflict of interest situation should promptly disclose the matter to the relevant authorities. If warranted, the employee concerned should also obtain appropriate approvals and inhibit himself from any action, transaction or decision involving an existing or potential conflict of interest.
- b. Policy on Gifts, Entertainment and Sponsored Travel approved on January 31, 2006. This policy provides safeguards so that the custom of giving gifts is handled in accordance with the principles of integrity, accountability, fairness and transparency. It aims to prevent the occurrence of situations or actions that could significantly affect objective, independent or effective performance of an employee's duties. Specifically, it prohibits the solicitation of gifts, sponsored travel, and entertainment from third parties. Receipt and acceptance of gifts voluntarily given by such third parties are handled according to this policy as well.

- c. Supplier/Contractor Relations Policy approved on January 31, 2006. This policy seeks to ensure that the Company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services. The policy also seeks to maintain PLDT's reputation for equal opportunity and honest treatment of suppliers in all business transactions. It establishes clear rules for arm's length transactions and fair treatment of prospective and existing suppliers with the objective of always obtaining the best value for the Company. The policy specifically adopts the processes of vendor accreditation and competitive bidding as the general rule and established practices to ensure that contracts are awarded only to qualified and duly-accredited suppliers and vendors who offer the best value for money for PLDT's requirements.
- d. Policy on Employee Disclosure on Violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by PLDT's Table of Penalties (or the Expanded Whistleblowing Policy) approved on May 9, 2006. This policy provides guidelines on handling employee disclosure or complaints of violation of rules pertaining to the aforestated matters, protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint.

Detailed implementing guidelines are likewise issued for the said policies to ensure their wide observance. All these policies and rules (collectively, the "Corporate Governance Rules", or "CG Rules") are periodically reviewed to ensure that they are appropriate for PLDT, keep pace with comparable and applicable global best practices, and are compliant with the requirements of the Philippine and U.S. SEC and NYSE corporate governance rules, as may be appropriate and applicable.

To access the Code of Ethics, the CG Manual or information on PLDT's corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11 differ, please refer to:

http://www.pldt.com/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT\_Code\_ of\_Business\_Conduct\_and\_Ethics.pdf

http://www.pldt.com/governance/about/Documents/22336f71c88c495793d15575c2addffcpldtcorpgov\_m\_anual.pdf

http://www.pldt.com/governance/about/Documents/f7933d17962d4b2c942e50ba4980f21bpldtdisclosure .pdf

PLDT's subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies similar in substance and form to PLDT's CG Rules, as well as appointed their respective corporate governance officers.

Pursuant to the Conflict of Interest Policy, PLDT officers, executives and employees are required to submit Conflict of Interest Disclosures. If a transaction is affected by conflict of interest, it is subject to approval by the appropriate approving authorities and the conflicted director, officer, executive or employee is prohibited from participating in any activity related to the said transaction. PLDT is progressively institutionalizing the practice of timely and transparent disclosures down to the level of rank and file employees. PLDT's suppliers, vendors and contractors are also required to make prompt disclosures with respect to relationships and affiliations that they or their personnel may have with respect to PLDT directors, officers, executives and employees.

PLDT's Expanded Whistleblowing Policy facilitates the anonymous reporting of violations of CG Rules, accounting and auditing rules and regulations or the PLDT Personnel Manual. PLDT maintains a Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. All employees and stakeholders who come forward in good faith, regardless of rank or status, to report any of the violations mentioned above or any act that may be considered as contrary to the Company's values of accountability, integrity, fairness and transparency may submit a complaint or disclosure on such violations to the CGO, which is headed by the Chief Governance Officer. Upon receipt of a report, complaint or disclosure by the CGO, a preliminary evaluation is conducted to determine the veracity and plausibility of the allegations contained in the complaint or report, as well as the appropriate investigating unit to which the case shall be assigned for further action as may be deemed appropriate. The CGO monitors the developments in the cases reported and ensures appropriate reporting to the Audit Committee, the GNC, and any other relevant committee, body or authority on the results of the investigations and the prompt referrals of findings to the units concerned. The Company's committees on officer or employee discipline, as the case may be, are responsible for evaluating and approving the appropriate disciplinary action against erring officers and employees. In all processes and activities related to a whistleblowing complaint or disclosure, utmost confidentiality is observed in order to ensure the integrity of the process and/or

protect the parties, employees or officers who may be involved. By way of an added feedback mechanism for whistleblowers and for transparency, a brief bulletin describing in general terms the cases handled and their status is made available in the Company website.

In line with all of these, PLDT has incorporated corporate governance standards in the performance evaluation of employees and has included violations of CG Rules as cause for disqualification in being awarded incentives and rewards in its Policy on Employee Qualification for Incentives and Rewards and any long term incentive plan in place for executives and officers.

To make sure that relations between the Company and its business partners are imbued with shared standards on good corporate governance, the Company has developed written corporate governance guidelines for suppliers and contractors to which the Company's suppliers and contractors are expected to consent in writing, thereby ensuring that they understand and accept these standards as indispensable in doing business with PLDT. The Company also conducts suppliers'/contractors' briefings and communicates to its business partners, including suppliers, the Company's commitment to, as well as expectations on, good corporate governance.

Further information on PLDT's Code of Ethics, CG Manual and the Charters of the Board Committees are available on the Company website. PLDT maintains a website at www.pldt.com.ph on which reports filed by the Company and other information may be accessed. The Company has undertaken to provide a copy, without charge, to any person requesting for a copy of any, or both, of the Code of Ethics and CG Manual from our Chief Governance Officer, Atty. Ma. Lourdes C. Rausa-Chan, who can be reached at e-mail address *Irchan@pldt.com.ph* or telephone number +632-816-8556.

#### • Education and Enhancements

As part of its education and communication program, PLDT provides continuous training for its Board, senior management and employees, which includes an annual enhancement session conducted by internationally-known experts to share their insights and interact with PLDT's Board and senior management. The GNC recommends the content and the speaker for each session. PLDT has organized and conducted six annual enhancement sessions since 2007.

In November 2012, Dr. Thomas Donaldson, the Mark O. Winkelman Professor and the Director of the Zicklin Center for Business Ethics Research, The Wharton School, University of Pennsylvania, spoke before the PLDT Board of Directors. Dr. Donaldson's session, entitled *Navigating the New World of Business* discussed how companies operate in these turbulent times and navigate issues of reputational risk, governance and integrity. He spoke about major failures in the areas of governance and risk management and the dangerous patterns of rewards and cultural weakness. He emphasized that compliance is important, but that it should be augmented by right leadership, proper systems and a culture guided by the right values, such as integrity, responsibility, and fairness. Dr. Donaldson conducted a similar session for PLDT's senior management on November 20, 2012.

PLDT also provided corporate governance training for its middle management. A special session for its executives was conducted by Mr. Keith Darcy, Executive Director of the Ethics and Compliance Officer Association based in Waltham, Massachusetts, USA. Mr. Darcy discussed *Corporate Responsibility in the Changing Global Landscape*. He emphasized that many challenges remain and that in the changing global landscape, companies that have ethical, self-regulating cultures will be able to withstand the many upheavals that business will face.

In addition, newly promoted and hired executives are required to undergo a half-day workshop on Ethical Decision Making as part of their competency development as managers. The highly interactive course provides personnel in the middle manager category an opportunity to discuss and develop approaches to ethical dilemmas that confront them at the workplace.

To strengthen middle management's management and implementation of internal controls in PLDT, a workshop entitled *Managing from a Position of Control* was developed and rolled-out in 2012. The course was developed through the joint efforts of the internal audit, corporate governance, finance and human resource offices of PLDT. The course seeks to empower concerned personnel to take direct responsibility in understanding, observing and implementing internal controls within their respective spheres of authority. It provides detailed discussions on the rationale for internal controls, responsibilities of personnel and procedures for observance. A pilot course and one regular run of the workshop were conducted in 2012. Other PLDT executives and key supervisory personnel took the course in 2013.

PLDT also requires newly-hired employees and executives to undergo a corporate governance orientation.

In addition to face-to-face trainings, PLDT has on-line training modules for its employees. PLDT executives with the rank of manager, senior manager and assistant vice president have complied with the requirement to complete an online training course on the *PLDT Expanded Whistleblowing Policy*. Supervisory and rank and file employees, on the other hand, have completed a module on the *PLDT Conflict of Interest Policy*.

Education and training is supplemented by the production and dissemination of relevant corporate governance communication materials, including thematic posters, calendars and newsletters. Directors and executive officers and executives of PLDT are also provided with weekly Corporate Governance Newsbriefs, which contain summaries of news articles from global online sources. Directors are also provided with *CG Updates* of articles on relevant topics written by noted authors and/or authorities. The Company also issues periodic advisories on corporate governance.

#### • Monitoring & Evaluation

PLDT's governance monitoring and evaluation system consists of the annual performance self-assessment conducted by the Board and the Board Committees, the review of the effectiveness of the Company's CG Rules and their implementation every two years, the annual compliance evaluation conducted by Management, and other tools employed to monitor observance of the CG Rules and corporate values by Company personnel.

Our Board conducts a self-assessment each calendar year to evaluate the performance of the Board as a whole, the Board Committees and the individual directors. The process, which also includes an evaluation of the performance of the CEO and management, enables the Board to identify strengths and areas for improvement and to elicit individual director's feedback and views on the Company's strategy, performance and future direction. Similarly, each Board Committee also conducts an annual self-assessment of its performance. The members of the Board and the Board Committee also conducts an annual self-assessment Questionnaires for this purpose. The Board Self-Assessment Questionnaire contains the following criteria based on leading practices and principles on good governance: (1) for the Board: Leadership, Roles and Responsibilities, Independence, Stewardship, Reporting and Disclosure, Shareholders' Benefits and Training; (2) for individual Directors: the specific duties and responsibilities of a director; and (3) for the Board Committees: Performance and Compliance. Each Board Committee Self-Assessment Questionnaire contains the following criteria: Performance and Compliance and Committee Governance. The results of the assessment process are duly reported to, and discussed as necessary by, the Board.

As part of Board oversight, the Company's CG Rules, including their implementation, are reviewed every two (2) years to ensure that they continue to be compliant, appropriate and effective. The latest review of the Code of Ethics was conducted and the results thereof reported to the GNC in 2012. The Policy on Gifts, Entertainment and Sponsored Travel, the Supplier/Contractor Relations Policy, and the Expanded Whistleblowing Policy, including their implementation, were reviewed in 2011. The results of the review were reported to the GNC and the recommendations to strengthen their implementation were approved.

PLDT monitors and assesses compliance with the CG Rules through a cross-functional evaluation system whereby the heads of the various business and support units/groups, including, but not limited to, Enterprise and International Carrier Business, Home Business, Finance, Human Resources, Customer Service Assurance, Technology, Supply Chain Asset Protection & Management, Public Affairs, Enterprise Risk Management, Information Technology, Regulatory, Internal Audit, Corporate Counsel and Legal Services, Corporate Governance Office, and Investor Relations, conduct an evaluation of their unit/group's compliance using an evaluation questionnaire consisting of the governance regulations applicable and relevant to their respective functions, including the requirements of the Revised Code of Corporate Governance and the PSE Corporate Governance Guidelines (PSE CG Guidelines). The results of the evaluation conducted by the heads are submitted to the Corporate Finance & Treasury Head and the Chief Governance Officer, who submit the consolidated report to the President and CEO for approval. The consolidated report is considered as an important input in the preparation of the Company's Certification of Compliance with the CG Manual and Disclosure Report on the PSE CG Guidelines. The results of the compliance evaluation are reported to the GNC by the CGO.

In the Certification of Compliance with the CG Manual, in 2012, the Company reported that it did not deviate from the provisions of the Revised Code of Corporate Governance as adopted in the PLDT CG Manual and that the Company also complied with the PLDT CG Manual, except that the Company temporarily deviated from its higher standards on the minimum number of independent directors and the minimum number of members of the Audit Committee. Such temporary deviation resulted from the resignation of Rev. Fr. Bienvenido F. Nebres on September 25, 2012 as an independent director-member of the Board and chairman of the Audit Committee, thereby decreasing the number of incumbent independent directors in the Board to two (2)and the number of incumbent

members of the Audit Committee to two (2) independent directors (the standard set out in PLDT's Audit Committee Charter is a minimum of three (3) members, all of whom must be independent directors)<sup>9</sup>.

The level of observance of the CG Rules and the values of accountability, integrity, fairness, and transparency, are monitored through the conduct of an annual focus group discussion across a wide cross-section of Company personnel and an analysis of its results. The results of online examinations through online learning modules, as well as questions and queries propounded during face-to-face learning interventions, are likewise monitored. PLDT has also instituted a follow-through survey for newly-hired employees, which intends to track whether their observance of the Company's CG Rules and values are improving or deteriorating over the first five years of their employment, including the employee's perception of the level of observance of his/her unit with the CG Rules and governance values, and the ethics perception survey developed by the CGO, which will provide quantitative information that can be more easily tracked, managed and be made the basis for development and review of programs, policies and initiatives.

<sup>&</sup>lt;sup>9</sup> Effective on April 23, 2013 and May 7, 2013, Former Chief Justice Panganiban was appointed as the third independent director and third member of the Audit Committee, respectively.

# **FINANCIAL STATEMENTS**

The following pages set forth our Unaudited Interim Consolidated Financial Statements as at September 30, 2013 and for the nine months ended September 30, 2013 and 2012, and Audited Consolidated Financial Statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010.



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

We are responsible for the preparation and fair presentation of the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries (the PLDT Group) as at December 31, 2012, 2011 and January 1, 2011, and for each of the three years in the period ended December 31, 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our Audit Committee, as authorized by the Board of Directors, reviews our consolidated financial statements before these are approved and issued exclusively for the purpose of inclusion in the retail bond offering circular.

SyCip Gorres Velayo & Co., a member firm of the Ernst & Young Global Limited, the independent auditors appointed by our Audit Committee, has audited our consolidated financial statements as at December 31, 2012, 2011 and January 1,2011, and for each of the three years in the period ended December 31, 2012 in accordance with Philippine Standards on Auditing, and expressed their opinion on the fairness of presentation upon completion of such audit, in their report to our Stockholders and Board of Directors dated January 7, 2014.

MANUEL V. PANGILINAN Chairman of the Board

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ANABELLE L. CHUA Senior Vice President and Treasurer

NAPOLEON L. NAZARENO

President and Chief Executive Officer

JUNE CHERYL A, CABAL-REVILLA First Vice President and Controller

SUBSCRIBED AND SWORN to before me this 20 day Not 2 and ary 2014 affiants exhibiting to me their Passport, as follows:

| Name   | Passport No. | Date of Expiry   | Place of Issue   |
|--|--------------|--|--|
| Manuel V. Pangilinan   | EB0160000    | April 27, 2015   | DFA, Manila  |
| Napoleon L. Nazareno   | EB8091848    | May 10, 2018   | DFA, Manila  |
| Anabelle L. Chua   | EB0080269    | April 8, 2015  | DFA, Manila  |
| June Cheryl A. Cabal-Revilla   | EB5029955    | March 28, 2017   | DFA, Manila  |
| Doc. No. 674 ;<br>Page No. 17 ;<br>Book No. <u>VI</u> ;<br>Series of 2014. |              | Notary Public<br>Notary Public for the Cit<br>Appointment No. M-77 Until<br>Roll of Attorneys No<br>PTR No. 3673442 / 1.7.201:<br>Lifetime IBP No. 0<br>3rd Fir., Remon Cojuan<br>Mekati Avenue, Mak | y çî Makap<br>Dec. 31, 2014<br>.42226<br>3 Makasi City<br>2776<br>900 Bidge, |

General Office P.O. Box 2148 Makati City, Philippines



# CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012 AND 2011, AND JANUARY 1, 2011 (AS ADJUSTED) AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010 (AS ADJUSTED)

AND

INDEPENDENT AUDITORS' REPORT



SyCip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City Philippines

Tel: (632) 891 0307 Fax: (632) 819 0872 ey.com/ph BOA/PRC Reg. No. 0001, December 28, 2012, valid until December 31, 2015 SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015

# **INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors Philippine Long Distance Telephone Company Ramon Cojuangco Building Makati Avenue, Makati City

We have audited the accompanying consolidated financial statements of Philippine Long Distance Telephone Company and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and January 1, 2011, and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

# Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

# Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





# **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and its subsidiaries as at December 31, 2012 and 2011, and January 1, 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

# **Other Matters**

Philippine Long Distance Telephone Company and its subsidiaries have previously issued a separate set of consolidated financial statements as at December 31, 2012 and 2011, and for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards, on which we issued an independent auditors' report dated March 5, 2013 and expressed an unqualified opinion therein.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010 have been re-issued to reflect the impact of new accounting standards effective beginning January 1, 2013 with retrospective application. The re-issued consolidated financial statements have been prepared solely for the purpose of inclusion in the prospectus related to Philippine Long Distance Telephone Company's bond offering.

SYCIP GORRES VELAYO & CO.

Ramm Li. Dizm

Ramon D. Dizon Partner CPA Certificate No. 46047 SEC Accreditation No. 0077-AR-3 (Group A), February 21, 2013, valid until February 20, 2016 Tax Identification No. 102-085-577 BIR Accreditation No. 08-001998-17-2012, April 11, 2012, valid until April 10, 2015 PTR No. 4225167, January 2, 2014, Makati City

January 7, 2014



#### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in million pesos, except par value per share amounts and number of shares)

|   | As at De                       | cember 31, | As at Januar |
|---|--------------------------------|------------|--------------|
|   | 2012                           | 2011       | 2011         |
|   | (As Adjusted – Notes 2 and 13) |            | 2 and 13)    |
| <u>ASSETS</u>   |                                |            |              |
| Noncurrent Assets   |                                |            |              |
| Property, plant and equipment (Notes 3, 5, 9, 12 and 20)                | 200,078                        | 200,142    | 163,184      |
| Investments in associates, joint ventures and deposits                  |                                |            |              |
| (Notes 3, 4, 5, 10 and 24)  | 27,077                         | 17,865     | 23,203       |
| Available-for-sale financial investments (Notes 6, 10 and 27)           | 5,651                          | 7,181      | 147          |
| Investment in debt securities and other long-term investments -         |                                |            |              |
| net of current portion (Notes 11 and 27)                                | 205                            | 150        | 484          |
| Investment properties (Notes 3, 6, 9 and 12)                            | 712                            | 1,115      | 1,560        |
| Goodwill and intangible assets (Notes 3, 4, 5, 14 and 21)               | 74,250                         | 83,303     | 11,485       |
| Deferred income tax assets – net (Notes 3, 4 and 7)                     | 7,225                          | 5,117      | 5,977        |
| Derivative financial assets (Note 27)                                   | -                              | -          | 178          |
| Prepayments – net of current portion (Notes 3, 5, 18, 24 and 25)        | 4,500                          | 11,697     | 9,080        |
| Advances and other noncurrent assets – net of current portion (Note 27) | 1,376                          | 1,340      | 1,187        |
| Total Noncurrent Assets   | 321,074                        | 327,910    | 216,485      |
| Current Assets  |                                |            |              |
| Cash and cash equivalents (Notes 15 and 27)                             | 37,161                         | 46.057     | 36.678       |
| Short-term investments (Note 27)  | 574                            | 558        | 669          |
| Trade and other receivables (Notes 3, 5, 16, 18, 24 and 27)             | 16,379                         | 16,245     | 16,428       |
| Inventories and supplies (Notes 3, 4, 5 and 17)                         | 3,467                          | 3.827      | 2.219        |
| Derivative financial assets (Note 27)                                   | _                              | 366        | _, 5         |
| Current portion of investment in debt securities and other long-term    |                                |            |              |
| investments (Notes 11 and 27)   | 150                            | 358        | -            |
| Current portion of prepayments (Note 18)                                | 5,144                          | 6,345      | 5,418        |
| Current portion of advances and other noncurrent assets                 | ,                              | -,         | -, -         |
| (Notes 19, 27 and 28)   | 8,116                          | 126        | 181          |
|   | 70,991                         | 73,882     | 61,598       |
| Assets classified as held-for-sale (Notes 2, 3, 4 and 10)               | 13,750                         |            |              |
| Total Current Assets  | 84,741                         | 73,882     | 61,598       |
| TOTAL ASSETS  | 405.815                        | 401.792    | 278,083      |

## EQUITY AND LIABILITIES

#### Equity

| TOTAL EQUITY  | 145,734        | 154,246        | 97,732        |
|---|----------------|----------------|---------------|
| Total Equity Attributable to Equity Holders of PLDT (Note 27)<br>Noncontrolling interests (Note 6)          | 145,550<br>184 | 153,860<br>386 | 97,416<br>316 |
| Reserves of a disposal group classified as held-for-sale (Note 2)   | (2,143)        | -              | -             |
| Other comprehensive income (Note 6)   | (3,387)        | 1,455          | (1,276)       |
| Retained earnings (Note 19)   | 25,416         | 26,160         | 36,941        |
| Capital in excess of par value  | 130,566        | 127,246        | 62,890        |
| and January 1, 2011 (Notes 8, 19 and 27)  | (6,505)        | (6,505)        | (6,505)       |
| Treasury stock - 2,724,111 shares as at December 31, 2012 and 2011,   |                |                |               |
| - 189,480,549 shares and outstanding - 186,756,438 shares as at<br>January 1, 2011 (Notes 8, 19, 27 and 28) | 1,093          | 1,085          | 947           |
| outstanding - 214,436,333 shares as at December 31, 2011; and issued  |                |                |               |
| shares as at December 31, 2012; issued - 217,160,444 shares and   |                |                |               |
| shares; issued - 218,779,886 shares and outstanding - 216,055,775   |                |                |               |
| Common stock, Php5 par value per share, authorized - 234,000,000  |                |                |               |
| outstanding - 150,000,000 shares as at December 31, 2012 (Note 19)  | 150            | -              | -             |
| Voting preferred stock, Php1 par value per share, authorized, issued and                                    |                |                |               |
| 441,887,387 shares at January 1, 2011 (Notes 8, 19, 27 and 28)  | 360            | 4,419          | 4,419         |
| December 31, 2012, 441,912,370 shares as at December 31, 2011 and   |                |                |               |
| 807,500,000 shares; issued and outstanding - 36,002,970 shares as at  |                |                |               |
| Non-voting serial preferred stock, Php10 par value per share, authorized -                                  |                |                |               |

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued) (in million pesos)

|   | As at December 31, |                 | As at January <sup>-</sup> |  |
|---|--------------------|-----------------|----------------------------|--|
|   | 2012               | 2011            | 2011                       |  |
|   | (As Ac             | djusted – Notes | 2 and 13)                  |  |
| Noncurrent Liabilities  |                    |                 |                            |  |
| Interest-bearing financial liabilities - net of current portion         |                    |                 |                            |  |
| (Notes 3, 4, 5, 9, 20, 23 and 27)                                       | 102,821            | 91,280          | 75,888                     |  |
| Deferred income tax liabilities - net (Notes 3, 4 and 7)                | 5,713              | 7,078           | 1,099                      |  |
| Derivative financial liabilities (Note 27)                              | 2,802              | 2,235           | 3,604                      |  |
| Customers' deposits (Note 27)   | 2,529              | 2,272           | 2,223                      |  |
| Pension and other employee benefits (Notes 3, 5 and 25)                 | 1,982              | 552             | 1,755                      |  |
| Deferred credits and other noncurrent liabilities                       |                    |                 |                            |  |
| (Notes 3, 5, 9, 21, 23, 27 and 28)                                      | 21,950             | 22,642          | 13,567                     |  |
| Total Noncurrent Liabilities  | 137,797            | 126,059         | 98,136                     |  |
| Current Liabilities   |                    |                 |                            |  |
| Accounts payable (Notes 22, 24, 26 and 27)                              | 30,451             | 29,554          | 25,804                     |  |
| Accrued expenses and other current liabilities                          |                    |                 |                            |  |
| (Notes 3, 10, 14, 19, 20, 21, 23, 24, 25, 26, 27 and 28)                | 71,624             | 58,271          | 35,959                     |  |
| Current portion of interest-bearing financial liabilities               |                    |                 |                            |  |
| (Notes 3, 4, 5, 9, 20, 23 and 27)                                       | 12,989             | 26,009          | 13,801                     |  |
| Provision for claims and assessments (Notes 3 and 26)                   | 1,555              | 1,555           | 1,555                      |  |
| Dividends payable (Notes 19 and 27)                                     | 827                | 2,583           | 2,086                      |  |
| Derivative financial liabilities (Note 27)                              | 418                | 924             | -                          |  |
| Income tax payable (Note 7)   | 1,809              | 2,591           | 3,010                      |  |
|   | 119,673            | 121,487         | 82,215                     |  |
| Liabilities directly associated with assets classified as held-for-sale |                    |                 |                            |  |
| (Notes 2 and 4)   | 2,611              | -               | _                          |  |
| Total Current Liabilities   | 122,284            | 121,487         | 82,215                     |  |
| TOTAL LIABILITIES   | 260,081            | 247,546         | 180,351                    |  |
| TOTAL EQUITY AND LIABILITIES  | 405,815            | 401.792         | 278.083                    |  |

# CONSOLIDATED INCOME STATEMENTS For the Years Ended December 31, 2012, 2011 and 2010 (in million pesos, except earnings per common share amounts)

| _  | 2012    | 2011             | 2010    |
|--|---------|------------------|---------|
|  | (A      | s Adjusted – Not | e 2)    |
| REVENUES   |         |                  |         |
| Service revenues (Notes 2, 3 and 4)  | 160,189 | 145,834          | 148,597 |
| Non-service revenues (Notes 3, 4 and 5)  | 3,295   | 2,645            | 2,217   |
|  | 163,484 | 148,479          | 150,814 |
| EXPENSES   |         |                  |         |
| Depreciation and amortization (Notes 3, 4 and 9)   | 32,354  | 27,539           | 25,881  |
| Compensation and employee benefits (Notes 3, 5 and 25)   | 21,999  | 15,411           | 19,759  |
| Repairs and maintenance (Notes 12, 17 and 24)  | 12,604  | 10,053           | 9,087   |
| Interconnection costs (Note 2)   | 11,556  | 12,586           | 13,928  |
| Selling and promotions (Note 24)   | 9,708   | 7,807            | 5,244   |
| Cost of sales (Notes 5, 17 and 24)   | 8,747   | 5,443            | 4,771   |
| Rent (Notes 3, 24 and 27)  | 5,860   | 3,938            | 3,699   |
| Professional and other contracted services (Note 24)   | 5,361   | 5,143            | 4,462   |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)   | 5,286   | 10,200           | 1,420   |
| Taxes and licenses (Note 26)   | 3,506   | 3,554            | 2,508   |
| Communication, training and travel   | 2,042   | 1,645            | 1,535   |
| Insurance and security services (Note 24)  | 1,564   | 1,326            | 1,193   |
| Amortization of intangible assets (Notes 3, 4 and 14)  | 921     | 117              | 163     |
| Other expenses   | 1,472   | 1,662            | 1,637   |
|  | 122,980 | 106,424          | 95,287  |
|  | 40,504  | 42,055           | 55,527  |
|  |         |                  |         |
| OTHER INCOME (EXPENSES)<br>Foreign exchange gains (losses) – net (Notes 4, 9 and 27)                           | 3,282   | (705)            | 1 050   |
| Equity share in net earnings of associates and joint ventures (Notes 4 and 10)                                 |         | (735)            | 1,850   |
|  |         | 2,035            | 1,408   |
| Interest income (Notes 4, 5, 11 and 15)  | 1,354   | 1,357            | 1,180   |
| Gains (losses) on derivative financial instruments – net (Notes 4 and 27)                                      | (2,009) | 201              | (1,741) |
| Financing costs – net (Notes 4, 5, 9, 20 and 27)   | (6,876) | (6,454)          | (6,530) |
| Other income (Notes 4 and 18)  | 5,813   | 2,626<br>(970)   | 1,929   |
|  | 3,102   | (970)            | (1,904) |
| INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS  |         |                  |         |
| (Note 4)   | 43,606  | 41,085           | 53,623  |
| PROVISION FOR INCOME TAX (Notes 2, 3, 4 and 7)   | 8,050   | 10,734           | 13,309  |
| NET INCOME FROM CONTINUING OPERATIONS (Note 4)   | 35,556  | 30,351           | 40,314  |
| NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS   | - 10    | 007              | (100)   |
| (Notes 2, 4 and 8)   | 543     | 867              | (489)   |
| NET INCOME (Note 4)  | 36,099  | 31,218           | 39,825  |
| ATTRIBUTABLE TO:   |         |                  |         |
| Equity holders of PLDT (Notes 4 and 8)   | 36,148  | 31,278           | 39,783  |
| Noncontrolling interests (Notes 4 and 8)   | (49)    | (60)             | 42      |
|  | 36,099  | 31,218           | 39,825  |
| Earnings Per Share Attributable to Common Equity Holders of PLDT<br>(Notes 4 and 8)                            |         |                  |         |
| Basic  | 167.07  | 161.05           | 210.53  |
| Diluted  | 167.07  | 160.91           | 210.53  |
| Earnings Per Share from Continuing Operations Attributable to<br>Common Equity Holders of PLDT (Notes 4 and 8) |         |                  | -       |
|  |         |                  |         |
| Basic  | 164.55  | 156.52           | 213.15  |

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME For the Years Ended December 31, 2012, 2011 and 2010 (in million pesos)

| -   | 2012    | 2011             | 2010   |
|---|---------|------------------|--------|
|   | (A      | s Adjusted – Not | e 2)   |
| NET INCOME (Note 4)   | 36,099  | 31,218           | 39,825 |
| OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX (Note 6)               |         |                  |        |
| Net fair value gains on cash flow hedges (Note 27)                    | 92      | 14               | -      |
| Net gains on available-for-sale financial investments (Note 10):      | 23      | 3                | 22     |
| Gains from changes in fair value recognized during the year (Note 10) | 25      | 3                | 23     |
| Income tax related to fair value adjustments charged directly to      |         |                  |        |
| equity  | (2)     | -                | (4)    |
| Losses removed from other comprehensive income taken to income        | -       | _                | З́     |
| Foreign currency translation differences of subsidiaries              | (795)   | 624              | (761)  |
| Net other comprehensive income (loss) to be reclassified to profit or |         |                  |        |
| loss in subsequent years  | (680)   | 641              | (739)  |
| ···· ·································                                |         | -                | ( /    |
| Revaluation increment on investment properties (Notes 9 and 12):      | 31      | _                | 314    |
| Income tax related to revaluation increment charged directly to       |         |                  |        |
| equity  | 32      | _                | (135)  |
| Fair value adjustment of property, plant and equipment transferred    |         |                  | ()     |
| to investment properties during the year                              | 1       | _                | 449    |
| Depreciation of revaluation increment in investment property          | -       |                  |        |
| transferred to property, plant and equipment                          | (2)     | _                | _      |
| Actuarial gains (losses) on defined benefit obligations (Note 7):     | (6,233) | 2,099            | _      |
| Income tax related to remeasurement adjustments                       | 2,652   | (912)            | _      |
| Remeasurement in actuarial gains (losses) on defined benefit          | _,      | (0:2)            |        |
| obligations   | (8,885) | 3,011            | _      |
| Net other comprehensive income (loss) to be reclassified to retained  | (0,000) | .,               |        |
| earnings in subsequent years  | (6,202) | 2,099            | 314    |
| Total Other Comprehensive Income (Loss) – Net of Tax                  | (6,882) | 2,740            | (425)  |
| TOTAL COMPREHENSIVE INCOME  | 29,217  | 33,958           | 39,400 |
| ATTRIBUTABLE TO:  |         |                  |        |
| Equity holders of PLDT  | 29,268  | 34,009           | 39,524 |
| Noncontrolling interests  | (51)    | (51)             | (124)  |
|   | 29,217  | 33,958           | 39,400 |

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY For the Years Ended December 31, 2012, 2011 and 2010 (in million pesos)

|  | Preferred<br>Stock | Common<br>Stock | Treasury<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Other<br>Comprehensive<br>Income | Reserves of a<br>Disposal Group<br>Classified as<br>Held-for-Sale | Total Equity<br>Attributable to<br>Equity Holders<br>of PLDT | Noncontrolling<br>Interests | Total<br>Equity |
|--|--------------------|-----------------|-------------------|--------------------------------------|----------------------|----------------------------------|---|--|-----------------------------|-----------------|
| Balances as at January 1, 2012, as<br>previously presented                                     | 4,419              | 1,085           | (6,505)           | 127,246                              | 26,232               | (644)                            | -   | 151,833  | 386                         | 152,219         |
| Effect of changes in accounting<br>policies for employee benefits<br>(Note 2)                  |                    |                 |                   |                                      | (72)                 | 2,099                            | _   | 2,027  | _                           | 2,027           |
| Balances as at January 1, 2012,  |                    |                 |                   | _                                    | (12)                 | 2,033                            |   | 2,021  | _                           | 2,021           |
| as adjusted  | 4,419              | 1,085           | (6,505)           | 127,246                              | 26,160               | 1,455                            | -   | 153,860  | 386                         | 154,246         |
| Total comprehensive income:  | -                  | -               | -                 | -                                    | 36,148               | (6,880)                          | -   | 29,268   | (51)                        | 29,217          |
| Net income (Notes 4 and 8)   | -                  | -               | -                 | -                                    | 36,148               | -                                | -   | 36,148   | (49)                        | 36,099          |
| Other comprehensive income<br>(Note 6)   | -                  | -               | -                 | -                                    | -                    | (6,880)                          | -   | (6,880)  | (2)                         | (6,882)         |
| Cash dividends (Note 19)   | -                  | -               | -                 | -                                    | (36,997)             | -                                | -   | (36,997)   | (7)                         | (37,004)        |
| Issuance of capital stock – net of<br>conversion (Note 19)                                     | 120                | 8               | -                 | 4,423                                | -                    | -                                | -   | 4,551  | -                           | 4,551           |
| Redemption of preferred shares<br>(Note 19)  | (4,029)            | -               | -                 | -                                    | -                    | -                                | -   | (4,029)  | _                           | (4,029)         |
| Revaluation increment removed<br>from other comprehensive<br>income taken to retained earnings | _                  | _               | _                 | _                                    | 105                  | (105)                            | -   | -  | _                           | _               |
| Discontinued operations<br>(Notes 2 and 6)   | -                  | _               | _                 | _                                    | _                    | 2,143                            | (2,143)   | -  | _                           | -               |
| Acquisition and dilution of<br>noncontrolling interests<br>(Notes 2 and 13)                    |                    |                 |                   | (1.103)                              |                      |                                  | _   | (1,103)  | (144)                       | (1.247)         |
| Balances as at December 31, 2012   | 510                | 1,093           | (6,505)           | 130,566                              | 25,416               | (3,387)                          | (2,143)   | 145,550  | 184                         | 145,734         |
|  | 0.0                | 1,000           | (0,000)           | 100,000                              | 20,110               | (0,001)                          | (2,110)   | 110,000  | 101                         | 110,101         |
| Balances as at January 1, 2011,<br>as previously presented                                     | 4,419              | 947             | (6,505)           | 62,890                               | 36,594               | (1,276)                          | -   | 97,069   | 316                         | 97,385          |
| Effect of changes in accounting<br>policies for employee benefits<br>(Note 2)                  | _                  | _               | _                 | _                                    | 347                  | _                                | _   | 347  | _                           | 347             |
| Balances as at January 1, 2011,<br>as adjusted   | 4,419              | 947             | (6,505)           | 62,890                               | 36,941               | (1,276)                          | _   | 97,416   | 316                         | 97,732          |
| Total comprehensive income:  | -                  | -               | -                 | -                                    | 31,278               | 2,731                            | -   | 34,009   | (51)                        | 33,958          |
| Net income (Notes 4 and 8)   | -                  | -               | -                 | -                                    | 31,278               | -                                | -   | 31,278   | (60)                        | 31,218          |
| Other comprehensive loss (Note 6)  | -                  | -               | -                 | -                                    | -                    | 2,731                            | -   | 2,731  | 9                           | 2,740           |
| Cash dividends (Note 19)   | -                  | -               | -                 | -                                    | (42,059)             | -                                | -   | (42,059)   | (8)                         | (42,067)        |
| Issuance of capital stock – net of<br>conversion (Note 19)                                     | _                  | 138             | _                 | 64,356                               | -                    | -                                | -   | 64,494   | -                           | 64,494          |
| Others (Notes 2 and 13)  | -                  | -               | -                 | -                                    | -                    | -                                | -   | -  | 129                         | 129             |
| Balances as at December 31, 2011   | 4,419              | 1,085           | (6,505)           | 127,246                              | 26,160               | 1,455                            | -   | 153,860  | 386                         | 154,246         |
| Balances as at January 1, 2010,<br>as previously presented                                     | 4,416              | 947             | (6,405)           | 62,890                               | 37,744               | (1,017)                          | -   | 98,575   | 550                         | 99,125          |
| Effect of changes in accounting<br>policies for employee benefits<br>(Note 2)                  |                    |                 |                   |                                      | 781                  |                                  |   | 781  |                             | 781             |
| Balances as at January 1, 2010,<br>as adjusted   | 4.416              | 947             | (6,405)           | 62.890                               | 38,525               | (1,017)                          |   | 99.356   | 550                         | 99,906          |
| Total comprehensive income:  | .,                 | -               | (0, 100)          |                                      | 39,783               | (259)                            | _   | 39,524   | (124)                       | 39,400          |
| Net income (Notes 4 and 8)   | -                  | _               | _                 | -                                    | 39,783               | (200)                            | -   | 39,783   | 42                          | 39,825          |
| Other comprehensive income<br>(Note 6)   | _                  | _               | _                 | _                                    |                      | (259)                            | _   | (259)  | (166)                       | (425)           |
| Cash dividends (Note 19)   | -                  | -               | -                 | -                                    | (41,367)             | (                                | _   | (41,367)   | (50)                        | (41,417)        |
| Issuance of capital stock – net of<br>conversion (Note 19)                                     | 3                  | _               | _                 | _                                    | _                    | _                                | _   | 3  | _                           | 3               |
| Acquisition of treasury stocks<br>(Notes 2, 8, 19 and 27)                                      | -                  | _               | (100)             | _                                    | _                    | -                                | _   | (100)  | -                           | (100)           |
| Others (Notes 2 and 13)  | -                  |                 |                   | _                                    | _                    | -                                | -   |  | (60)                        | (60)            |
| Balances as at December 31, 2010   | 4,419              | 947             | (6,505)           | 62,890                               | 36,941               | (1,276)                          |   | 97,416   | 316                         | 97,732          |

# CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012, 2011 and 2010 (in million pesos)

|   | 2012     | 2011             | 2010     |
|---|----------|------------------|----------|
|   | (As Ad   | justed – Notes 2 | and 13)  |
| CASH FLOWS FROM OPERATING ACTIVITIES                                    |          |                  |          |
| Income before income tax from continuing operations                     | 43,606   | 41,085           | 53,623   |
| Income (loss) before income tax from discontinued operations (Note 2)   | 971      | 985              | (553)    |
| Income before income tax (Note 4)                                       | 44,577   | 42,070           | 53,070   |
| Adjustments for:  |          |                  |          |
| Depreciation and amortization (Notes 3, 4 and 9)                        | 32,820   | 27,957           | 26,277   |
| Interest on loans and other related items - net                         | ,        |                  |          |
| (Notes 4, 5, 9, 20 and 27)  | 5,430    | 5,312            | 5,471    |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)                  | 5,289    | 10,209           | 2,438    |
| Losses (gains) on derivative financial instruments – net                |          |                  |          |
| (Notes 4 and 27)  | 1,981    | (197)            | 1,741    |
| Incentive plans (Notes 3, 5 and 25)                                     | 1,598    | 38               | 1,392    |
| Amortization of intangible assets (Notes 3 and 14)                      | 1,101    | 264              | 388      |
| Accretion on financial liabilities - net (Notes 5, 20 and 27)           | 1,053    | 1,062            | 1,177    |
| Pension benefit costs (Notes 3, 5 and 25)                               | 678      | 569              | 851      |
| Gains on disposal of property, plant and equipment (Note 9)             | (51)     | (172)            | (913)    |
| Interest income (Notes 4, 5 and 15)                                     | (1,370)  | (1,372)          | (1,200)  |
| Equity share in net earnings of associates and joint ventures           | ()       | ()- /            | ( ) )    |
| (Notes 4 and 10)  | (1,538)  | (2,035)          | (1,408)  |
| Gains on disposal of net assets held-for-sale (Note 10)                 | (1,760)  | _                | ( )      |
| Gain on disposal of investments available-for-sale (Note 10)            | (2,015)  | _                | _        |
| Foreign exchange losses (gains) – net (Notes 4, 9 and 27)               | (3,243)  | 744              | (1,807)  |
| Others  | (1,170)  | (1,961)          | (352)    |
| Operating income before changes in assets and liabilities               | 83,380   | 82,488           | 87,125   |
| Decrease (increase) in:   | 00,000   | 02,100           | 01,120   |
| Trade and other receivables   | (8,338)  | 2,064            | (3,132)  |
| Inventories and supplies  | 386      | (1,017)          | 89       |
| Prepayments   | 97       | (539)            | (146)    |
| Advances and other noncurrent assets                                    | (108)    | 51               | (15)     |
| Increase (decrease) in:   | (100)    | 01               | (10)     |
| Accounts payable  | 6,140    | 904              | 6,407    |
| Accrued expenses and other current liabilities                          | 11,112   | 7,011            | 3,722    |
| Pension and other employee benefits                                     | (2,245)  | (236)            | (4,603)  |
| Customers' deposits   | 257      | 45               | (4,000)  |
| Other noncurrent liabilities  | (205)    | 12               | 50       |
| Net cash flows generated from operations                                | 90,476   | 90,783           | 89,554   |
| Income taxes paid   | (10,106) | (11,574)         | (12,294) |
| Net cash flows from operating activities                                | 80,370   | 79,209           | 77,260   |
| CASH FLOWS FROM INVESTING ACTIVITIES                                    | 00,070   | 10,200           | 11,200   |
| Interest received   | 1,294    | 1 250            | 1,165    |
| Dividends received (Note 10)  | 784      | 1,359<br>520     | 534      |
| Proceeds from:  | 104      | 520              | 534      |
| Disposal of available-for-sale financial investments                    | 3,567    | 1                | 10       |
|   |          | I                | 10       |
| Disposal of investment in net assets held-for-sale (Note 10)            | 1,913    | -                | -        |
| Maturity of investment in debt securities                               | 380      | -                | 409      |
| Disposal of property, plant and equipment (Note 9)                      | 199      | 523              | 859      |
| Disposal of investment properties (Note 12)                             | 108      | 1                | 89       |
| Disposal of investments in associates (Note 10)                         | -        | 15,136           | -        |
| Cash acquired – net of payment for purchase of investment (Note 13)     | -        | 1,928            | -        |
| Maturity of short-term investments                                      | -        | 315              | 6,256    |
| Disposal of investments in subsidiaries – net of cash of deconsolidated |          |                  |          |
| subsidiaries (Note 2)   | -        | 218              | -        |

# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) For the Years Ended December 31, 2012, 2011 and 2010 (in million pesos)

| _   | 2012                           | 2011     | 2010     |  |
|---|--------------------------------|----------|----------|--|
|   | (As Adjusted – Notes 2 and 13) |          |          |  |
| Payments for:   |                                |          |          |  |
| Acquisition of available-for-sale financial investments (Note 10)     | (4)                            | (15,179) | (2)      |  |
| Purchase of short-term investments                                    | (22)                           | (246)    | (3,114)  |  |
| Purchase of investment in debt securities                             | (208)                          | _        | (403)    |  |
| Purchase of subsidiaries – net of cash acquired (Note 13)             | (1,545)                        | (977)    | (188)    |  |
| Purchase of investments in associates, joint ventures and deposits    |                                |          | . ,      |  |
| (Note 10)   | (2,955)                        | (155)    | _        |  |
| Deposit for future PDRs subscription (Note 10)                        | (6,000)                        | _        | _        |  |
| Acquisition of intangibles (Note 4)                                   | -                              | (2)      | (13)     |  |
| Contingent consideration arising from business combinations (Note 23) | _                              | (1,910)  | ()       |  |
| Interest paid – capitalized to property, plant and equipment          |                                | (1,010)  |          |  |
| (Notes 4, 5, 9, 20 and 27)  | (914)                          | (648)    | (710)    |  |
| Additions to property, plant and equipment (Notes 4 and 9)            | (35,482)                       | (30,559) | (28,056) |  |
| Increase in advances and other noncurrent assets                      | (173)                          | (122)    | (20,000) |  |
| Decrease in notes receivable  | (175)                          | 85       | (113)    |  |
| Net cash flows used in investing activities                           | (39,058)                       | (29,712) | (23,283) |  |
|   | (53,050)                       | (23,112) | (20,200) |  |
| CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from:                   |                                |          |          |  |
| Availments of long-term debt (Note 20)                                | 50,319                         | 17,464   | 7,246    |  |
|   | ,                              |          | 7,240    |  |
| Notes payable (Note 20)   | 1,825                          | 2,136    | - 3      |  |
| Issuance of capital stock   | 227                            | 2        | -        |  |
| Availments of long-term financing for capital expenditures            | -                              | 2,880    | 75       |  |
| Payments for:   | (1.0)                          | (2.2)    | (22)     |  |
| Obligations under finance leases                                      | (12)                           | (33)     | (29)     |  |
| Redemption of shares  | (62)                           | _        | -        |  |
| Debt issuance costs (Note 20)   | (121)                          | (42)     | (111)    |  |
| Redemption of liabilities   | (289)                          | -        | -        |  |
| Derivative financial instruments (Note 27)                            | (1,126)                        | (632)    | (1,095)  |  |
| Long-term financing for capital expenditures                          | (1,471)                        | -        | -        |  |
| Notes payable (Note 20)   | (4,727)                        | (390)    | (2,274)  |  |
| Interest – net of capitalized portion (Notes 5, 20 and 27)            | (5,355)                        | (5,325)  | (5,580)  |  |
| Trust fund for redemption of shares (Note 19)                         | (5,561)                        | -        | -        |  |
| Cash dividends (Note 19)  | (36,934)                       | (41,598) | (41,080) |  |
| Long-term debt (Note 20)  | (45,341)                       | (14,666) | (12,371) |  |
| Acquisition of treasury shares (Notes 8, 19 and 27)                   | _                              | -        | (106)    |  |
| Net cash flows used in financing activities                           | (48,628)                       | (40,204) | (55,322) |  |
| NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON                        |                                |          |          |  |
| CASH AND CASH EQUIVALENTS   | (445)                          | 86       | (296)    |  |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                  | (7,761)                        | 9,379    | (1,641)  |  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR                    | 46,057                         | 36,678   | 38,319   |  |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR                          | 38,296                         | 46,057   | 36,678   |  |
| Discontinued operations (Note 2)                                      | 1,135                          | -        |          |  |
| Continuing operations   | 37,161                         | 46,057   | 36,678   |  |

#### 1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2012. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchanceable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2012. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at December 31, 2012, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares. See Note 13 - Business Combinations and Acquisition of Noncontrolling Interests - PLDT's Acquisition of Digitel.

On October 15, 2012, PLDT and BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or BTF, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2012. See Note 19 – Equity – Voting Preferred Stock and Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 47 million ADSs outstanding as at December 31, 2012.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the leading telecommunications service provider in the Philippines. Through our three business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for each of the three years in the period ended December 31, 2012 were reviewed and approved for issuance by the Audit Committee on January 7, 2014 as authorized by the Board of Directors on December 2, 2013.

### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

We prepared a separate set of consolidated financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards, or PFRSs.

The accompanying consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010 have been prepared and re-issued to reflect the impact of new accounting standards effective January 1, 2013 with retrospective application. The re-issued consolidated financial statements have been prepared solely for the purpose of inclusion in the prospectus related to PLDT's bond offering.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, available-for-sale financial investments and investment properties that have been measured at fair values.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million, except when otherwise indicated.

## Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at December 31, 2012 and 2011, and January 1, 2011:

|  |                           |   | Percentage of Ownership |          |        |          | )      |          |
|--|---------------------------|---|-------------------------|----------|--------|----------|--------|----------|
|  |                           |   |                         | Decem    |        |          |        | ary 1,   |
|  | Place of                  |   | 20                      | 12       | 20     | 11       | 20     | )11      |
| Name of Subsidiary   | Incorporation             | Principal Business Activity   | Direct                  | Indirect | Direct | Indirect | Direct | Indirect |
| Wireless   |                           |   |                         |          |        |          |        |          |
| Smart:   | Philippines               | Cellular mobile services  | 100.0                   | -        | 100.0  | -        | 100.0  | -        |
| Smart Broadband, Inc., or SBI, and<br>Subsidiary   | Philippines               | Internet broadband distribution services  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Primeworld Digital Systems, Inc., or PDSI  | Philippines               | Internet broadband distribution services  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| I-Contacts Corporation   | Philippines               | Call center services  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Wolfpac Mobile, Inc.   | Philippines               | Mobile applications development and<br>services   | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Wireless Card, Inc.  | Philippines               | Promotion of the sale and/or patronage<br>of debit and/or charge cards  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Smart e-Money, Inc., or SeMI<br>(formerly Smarthub, Inc.) <sup>(a)</sup>                 | Philippines               | Software development and sale of<br>maintenance and support services  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Smart Money Holdings Corporation,<br>or SMHC:  | Cayman Islands            | Investment company  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Smart Money, Inc., or SMI  | Cayman Islands            | Mobile commerce solutions marketing   | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Telecoms Solutions, Inc., or TSI <sup>(b)</sup>  | Mauritius                 | Mobile commerce platforms   | -                       | -        | -      | -        | -      | 100.0    |
| Far East Capital Limited, or FECL, and<br>Subsidiary, or FECL Group                      | Cayman Islands            | Cost effective offshore financing and<br>risk management activities for Smart   | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| PH Communications Holdings<br>Corporation  | Philippines               | Investment company  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Francom Holdings, Inc.:  | Philippines               | Investment company  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Connectivity Unlimited Resource<br>Enterprise, or CURE                                   | Philippines               | Cellular mobile services  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Chikka Holdings Limited, or Chikka,<br>and Subsidiaries, or Chikka Group                 | British Virgin<br>Islands | Mobile applications development and<br>services; Content provider   | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Smarthub Pte. Ltd., or SHPL:   | Singapore                 | Investment company  | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| Takatack Pte. Ltd.<br>(formerly SmartConnect Global<br>Pte. Ltd.), or SGP <sup>(c)</sup> | Singapore                 | International trade of satellites and Globa<br>System for Mobile Communication,<br>or GSM, enabled global<br>telecommunications | -                       | 100.0    | -      | 100.0    | -      | 100.0    |
| 3 <sup>rd</sup> Brand Pte. Ltd., or 3 <sup>rd</sup> Brand                                | Singapore                 | Solutions and systems integration<br>services   | -                       | 85.0     | -      | 85.0     | -      | 85.0     |
| Blue Ocean Wirless, or $BOW^{(cl)}$  | Isle of Man               | Delivery of GSM communication<br>capability for the maritime sector   | -                       | -        | -      | -        | -      | 51.0     |
| Telesat, Inc. <sup>(e)</sup>   | Philippines               | Satellite communications services   | 100.0                   | -        | 100.0  | -        | 100.0  | -        |
| ACeS Philippines Cellular Satellite<br>Corporation,                                      | Philippines               | Satellite information and messaging services  | 88.5                    | 11.5     | 88.5   | 11.5     | 88.5   | 11.5     |
| or ACeS Philippines  |                           |   |                         |          |        |          |        |          |

|  |                           |  |        |          | Percentage   | of Ownership | )      |          |
|--|---------------------------|--|--------|----------|--------------|--------------|--------|----------|
|  |                           |  |        |          | December 31, |              |        | uary 1,  |
|  | Place of                  |  |        |          |              | 11           |        | 011      |
| Name of Subsidiary   | Incorporation             | Principal Business Activity  | Direct | Indirect | Direct       | Indirect     | Direct | Indirect |
| Mabuhay Investment Corporation<br>(formerly Mabuhay Satellite<br>Corporation), or MIC <sup>(f)</sup>           | Philippines               | Investment company   | 67.0   | -        | 67.0         | -            | 67.0   | -        |
| Digitel Mobile Philippines, Inc., or DMPI,<br>(a wholly-owned subsidiary of Digitel) <sup>(g)</sup>            | Philippines               | Cellular mobile services   | -      | 99.5     | -            | 70.2         | -      | -        |
| Fixed Line   |                           |  |        |          |              |              |        |          |
| PLDT Clark Telecom, Inc., or ClarkTel  | Philippines               | Telecommunications services  | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| PLDT Subic Telecom, Inc., or SubicTel  | Philippines               | Telecommunications services  | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| PLDT Global Corporation, or PLDT Global,<br>and Subsidiaries   | British Virgin<br>Islands | Telecommunications services  | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| Smart-NTT Multimedia, Inc. <sup>(e)</sup>  | Philippines               | Data and network services  | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| PLDT-Philcom, Inc., or Philcom, and<br>Subsidiaries, or Philcom Group  | Philippines               | Telecommunications services  | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| ePLDT, Inc., or ePLDT <sup>(1)</sup> :   | Philippines               | Information and communications<br>infrastructure for internet-based<br>services, e-commerce, customer<br>relationship management and<br>information technology, or IT,<br>related services | 100.0  | -        | 100.0        | -            | 100.0  | -        |
| IP Converge Data Services, Inc., or<br>IPCDSI <sup>(i)</sup>   | Philippines               | Information and communications<br>infrastructure for internet-based<br>services, e-commerce, customer<br>relationship management and IT  | -      | 100.0    | -            | -            | -      | -        |
| ABM Global Solutions, Inc., or AGS,<br>and Subsidiaries, or AGS Group <sup>®</sup>                             | Philippines               | related services<br>Internet-based purchasing, IT<br>consulting and professional services  | -      | 97.1     | -            | 93.5         | -      | 93.5     |
| Digital Paradise, Inc. <sup>(k)</sup>  | Philippines               | Internet services  | -      | -        | -            | -            | -      | 75.0     |
| ePDS, Inc., or ePDS  | Philippines               | Bills printing and other related value-<br>added services, or VAS  | -      | 67.0     | -            | 67.0         | -      | 50.0     |
| netGames, Inc., or netGames <sup>()</sup>  | Philippines               | Gaming support services  | _      | 57.5     | -            | 57.5         | -      | 57.5     |
| Level Up!, Inc., or Level Up! <sup>(m)</sup>   | Philippines               | Publisher of online games  | -      | _        | -            | -            | -      | 57.5     |
| Digitel <sup>(g)</sup>   | Philippines               | Telecommunications services  | 99.5   | -        | 70.2         | -            | 70.2   | _        |
| Digitel Capital Philippines Ltd., or<br>DCPL <sup>(n)</sup>  | British Virgin<br>Islands | Telecommunications services  | -      | 99.5     | -            | 70.2         | _      | -        |
| Digitel Information Technology Services,<br>Inc. <sup>(0)</sup>  | Philippines               | Internet services  | -      | 99.5     | -            | 70.2         | -      | -        |
| PLDT-Maratel, Inc., or Maratel   | Philippines               | Telecommunications services  | 97.8   | _        | 97.8         | _            | 97.8   | _        |
| Bonifacio Communications Corporation,<br>or BCC  | Philippines               | Telecommunications, infrastructure and<br>related VAS  | 75.0   | -        | 75.0         | -            | 75.0   | -        |
| Pilipinas Global Network Limited, or PGNL,<br>and Subsidiaries   | British Virgin<br>Islands | International distributor of Filipino<br>channels and content  | 60.0   | -        | 60.0         | -            | -      | -        |
| 3PO <sup>(p)</sup>   |                           |  |        |          |              |              |        |          |
| PLDT Global Investments Holdings, Inc.,<br>or PGIH (formerly SPi Global<br>Holdings, Inc.) <sup>(Q)(r)</sup> : | Philippines               | Investment company   | 100.0  | -        | 100.0        | -            | -      | 100.0    |
| SPi Technologies, Inc., or SPi, and<br>Subsidiaries, or SPi Group <sup>(s)</sup>                               | Philippines               | Knowledge processing solutions   | -      | 100.0    | -            | 100.0        | -      | 100.0    |
| SPi CRM, Inc., or SPi CRM <sup>(s)</sup>   | Philippines               | Customer relationship management   | -      | 100.0    | -            | 100.0        | -      | 100.0    |
| SPi Global Investments Limited, or SGIL,<br>and Subsidiaries, or SGIL Group <sup>(t)</sup>                     | British Virgin<br>Islands | General administration, planning and<br>corporate services to its affiliates,  | -      | 100.0    | -            | -            | -      | -        |
| Infocom Technologies, Inc., or<br>Infocom <sup>(s)</sup>   | Philippines               | subsidiaries and branches<br>Customer relationship management  | -      | 99.6     | -            | 99.6         | -      | 99.6     |
| Others   |                           |  |        |          |              |              |        |          |
| PLDT Communications and Energy Ventures,<br>Inc., or PCEV  | Philippines               | Investment company   | -      | 99.8     | -            | 99.5         | -      | 99.5     |

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On July 12, 2013, the Philippine Securities and Exchange Commission, or Philippine SEC, approved the change in the business name of Smarthub, Inc. to Smart e-Money, Inc. Disolved on May 3, 2011. On September 29, 2013, by a special resolution of the Board of Directors of SmartConnect Global Pte. Ltd., resolved to change its registered business name to Takatack Pte. Ltd. In June 2011, the management and operations of BOW were sold by SHPL to Stratos BV, third party. Ceased commercial operations: Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC's Articles of Incorporation changing its name from Mabuhay Satellite Corporation to Mabuhay Investments Corporation and its primary purpose from satellite communication to holding communication to nolding commany. On October 26, 2011, FLDT acquired 51.6% equity interest parts in Digitel. On December 8, 2011, FLDT exercised the conversion option on convertible and exchangeable bonds issued by Digitel and DCPL, respectively, for an aggregate of 4 billion Digitel common hares, increasing PLDT's equity interest from 51.6% equity interest in Digitel and mandatory tender offer vere accounted for as linked transactivens, and the acquisition of 51.6% equity interest in Digitel and mandatory tender offer vere counted for as linked transactively to end of tender offer period where the actual remaining noncontrolling interest is determined. See Note 13 – Business Combinations – PLDT's Acquisition of Digitel. (g) Digite

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Digital. On June 11, 2012, MySecureSign, or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company. On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI. In December 2012, ePLDT acquired an additional 3.6% equity interest in AGS from its minority shareholders for a consideration of Php3 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 97.1%. On April 1, 2011, ePLDT sold its entire 75% equity interest in Digital Paradise. Ceased commercial corrections in Lany are 7013. 60

Ceased commercial operations in January 2013. On July 11, 2011, ePLDT sold its 57.5% interest in Level Up!.

(n) Liquidated in January 2013.

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Liquidated in January 2013. Approved for liquidation in June 2013. On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. See – Discontinued Operations and Note 3 – Management's Use of Accounting Judgments, Estimates automations – Discontinued Operations. On July 25, 2011, POIH was sold by ePLDT to PLDT and reclassified as a holding company for BPO segment, ePLDT and its remaining subsidiaries were folded to the fixed line business of PLDT. See discussion in Note 4 – Operating Segment Information. On Jule, 32, 2013, the Philippine SEC approved the change in the business name of SPI Global Holdings, Inc. to PLDT Global Investments Holdings, Inc. On Jule, 32, 0012, SGL was incorporated in British Virgin Islands to provide regional support PLDT's objective to grow the BPO segment. On March 8, 2012, SGL was incorporated in British Virgin Islands to provide regional support Services to PGIH and Subsidiaries. On July 25, 2012, SGIL subsidiary, SPI Global Shared Services Pte. Ltd. was registered with the Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or has rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

# PCEV's Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart's 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 at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE 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.

Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV's Board of Directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the par value of PCEV's common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

|                                | Prior to Amendments |                  |           | After Amendments   |                  |           |
|--------------------------------|---------------------|------------------|-----------|--------------------|------------------|-----------|
|                                | Authorized Capital  | Number of Shares | Par Value | Authorized Capital | Number of Shares | Par Value |
| Common Stock                   | Php12,060,000,000   | 12,060,000,000   | Php1      | Php12,060,006,000  | 574,286          | Php21,000 |
| Class I Preferred Stock        | 240,000,000         | 120,000,000      | 2         | 66,661,000         | 33,330,500       | 2         |
| Class II Preferred Stock       | 500,000,000         | 500,000,000      | 1         | 50,000,000         | 50,000,000       | 1         |
| Total Authorized Capital Stock | Php12,800,000,000   |                  |           | Php12,176,667,000  |                  |           |

The decrease in authorized capital and amendments to the articles of incorporation were approved by the Philippine SEC on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendments PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

As a consequence of the foregoing, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 123 as at September 30, 2013 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at September 30, 2013.

## 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 approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE must sell its *Red Mobile* business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

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, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, 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 an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC proposed the referral to commissioners of the computation of the CRA due Smart. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at December 31, 2012, but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

## Corporate Merger of MSSI and ePLDT

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

## ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSI and advances to IPCDSI for a total adjusted purchase price of Php693 million. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – ePLDT's Acquisition of IPCDSI.

## ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012 and January 2013, ePLDT acquired an additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%.

## **Discontinued Operations**

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-forsale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statements for the years ended December 31, 2011 and 2010 to present the results of operations of our BPO business as discontinued operations. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations. On February 5, 2013, PLDT entered into an agreement to sell the BPO business owned by its wholly-owned subsidiary, PGIH, to Asia Outsourcing Gamma Limited, or AOGL, a company controlled by CVC Capital Partners, or CVC. The sale of the BPO business was completed on April 30, 2013. PLDT reinvested approximately US\$40 million of the proceeds from the sale in Asia Outsourcing Beta Limited, or Beta, resulting in an approximately 19.7% interest, and will continue to participate in the growth of the business as a partner of CVC. Upon the completion of the sale, PLDT will be subject to certain obligations, including: (1) an obligation, for a period of five years, not to carry on or be engaged or concerned or interested in or assist any business which competes with the business process outsourcing business as carried on (excluding activities in the ordinary course of PLDT's business); and (2) an obligation, for a period of five years, to provide transitional services on a most-favored-nation basis (i.e., no less favorable material terms (including pricing) than those offered by PLDT or any of its controlled affiliates to any other customer in relation to services substantially similar to those provided or to be provided). In addition, PLDT may be liable for certain damages actually suffered by AOGL arising out of, among others, breach of representation, tax matters and non-compliance with Indian employment laws by SPi Technologies India Pvt. Ltd., a wholly-owned subsidiary of SPi.

As at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group heldfor-sale. The results of the BPO segment, net of intercompany transactions, classified as discontinued operations for the years ended December 31, 2012, 2011 and 2010 are as follows:

|  | 2012  | 2011               | 2010   |
|--|-------|--------------------|--------|
|  |       | (in million pesos) |        |
| Revenues (Notes 3 and 4)   | 9,142 | 8,124              | 7,573  |
| Expenses:  |       |                    |        |
| Compensation and employee benefits (Notes 3 and 25)                                | 5,630 | 5,026              | 4,926  |
| Professional and other contracted services (Note 24)                               | 654   | 525                | 391    |
| Depreciation and amortization (Notes 3, 4 and 9)                                   | 466   | 418                | 396    |
| Repairs and maintenance (Notes 12, 17 and 24)                                      | 428   | 338                | 347    |
| Communication, training and travel   | 361   | 301                | 297    |
| Rent (Notes 3, 24 and 27)  | 263   | 224                | 271    |
| Amortization of intangible assets (Notes 3 and 14)                                 | 180   | 147                | 225    |
| Selling and promotions   | 78    | 40                 | 40     |
| Insurance and security services (Note 24)  | 63    | 58                 | 59     |
| Taxes and licenses (Note 26)   | 43    | 43                 | 63     |
| Asset impairment (Notes 3, 4, 9, 10, 16, 17 and 27)                                | 3     | 9                  | 1,018  |
| Other expenses (Note 24)   | 110   | 115                | 126    |
|  | 8,279 | 7,244              | 8,159  |
|  | 863   | 880                | (586)  |
| Other income (expenses):   |       |                    |        |
| Gains (losses) on derivative financial instruments - net (Notes 4 and 27)          | 28    | (4)                | -      |
| Interest income (Notes 4, 11 and 15)   | 16    | 15                 | 20     |
| Financing costs (Notes 4, 9, 20 and 27)  | (24)  | (37)               | (168)  |
| Foreign exchange losses - net (Notes 4, 9 and 27)                                  | (39)  | (9)                | (43)   |
| Other income (Notes 4 and 18)  | 127   | 140                | 224    |
|  | 108   | 105                | 33     |
| Income (loss) before income tax from discontinued operations (Note 4)              | 971   | 985                | (553)  |
| Provision for (benefit from) income tax (Notes 2, 3, 4 and 7)                      | 428   | 118                | (64)   |
| Income (loss) after tax from discontinued operations (Notes 4 and 8)               | 543   | 867                | (489)  |
| Earnings per share (Note 9).   |       |                    |        |
| Earnings per share (Note 8):<br>Basic – income (loss) from discontinued operations | 2.52  | 4.53               | (2.62) |
| Diluted – income (loss) from discontinued operations                               | 2.52  | 4.52               | (2.62) |

The major classes of assets and liabilities of BPO segment, net of intercompany transactions, classified as held-forsale as at December 31, 2012 are as follows:

|   | (in million pesos) |
|---|--------------------|
| Assets:   |                    |
| Property, plant and equipment (Notes 3 and 9)             | 1,529              |
| Available-for-sale financial investments (Notes 6 and 10) | 2                  |
| Goodwill and intangible assets (Notes 3 and 14)           | 7,033              |
| Deferred income tax assets - net (Notes 3 and 7)          | 212                |
| Prepayments   | 9                  |
| Advances and other noncurrent assets                      | 117                |
| Cash and cash equivalents                                 | 1,135              |
| Trade and other receivables (Note 16)                     | 2,704              |
| Derivative financial assets (Note 27)                     | 68                 |
| Current portion of prepayments                            | 296                |
| Current portion of advances and other noncurrent assets   | 7                  |
| Assets classified as held-for-sale                        | 13,112             |

|   | (in million pesos) |
|---|--------------------|
| Liabilities:  |                    |
| Interest-bearing financial liabilities (Note 20)                        | 425                |
| Deferred income tax liabilities – net (Notes 4 and 7)                   | 147                |
| Pension and other employee benefits (Note 25)                           | 221                |
| Accounts payable  | 481                |
| Accrued expenses and other current liabilities                          | 885                |
| Current portion of interest-bearing financial liabilities (Note 20)     | 278                |
| Dividends payable   | 6                  |
| Derivative financial liabilities (Note 27)                              | 7                  |
| Income tax payable  | 161                |
| Liabilities directly associated with assets classified as held-for-sale | 2,611              |
| Net assets directly associated with disposal group                      | 10,501             |
| Included in other comprehensive income:                                 |                    |
| Net transactions on cash flow hedges – net of tax (Note 6)              | 62                 |
| Actuarial gains on defined benefit obligations - net of tax (Note 6)    | 45                 |
| Foreign currency translation differences of subsidiaries (Note 6)       | (2,250)            |
| Reserves of a disposal group classified as held-for-sale                | (2,143)            |

The net cash flows generated by the BPO segment for the years ended December 31, 2012, 2011 and 2010 are as follows:

|  | 2012  | 2011               | 2010  |
|--|-------|--------------------|-------|
|  |       | (in million pesos) |       |
| Operating activities   | 1,926 | (11,213)           | 1,851 |
| Investing activities   | (712) | (3,295)            | (455) |
| Financing activities   | (608) | 14,272             | (284) |
| Net effect of foreign exchange rate changes on cash and cash equivalents | (45)  | 11                 | (986) |
| Net cash inflow (outflow)  | 561   | (225)              | 126   |

#### **Changes in Accounting Policies and Disclosures**

Our accounting policies adopted in the preparation of our consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new and amended Philippine Accounting Standards, or PAS, PFRS and Philippine Interpretations which were adopted as at January 1, 2012.

Amendments to PFRS 7, Financial Instruments: Disclosures – Transfer of Financial Assets. The amendments require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of our financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The adoption of these amendments did not have any impact on our financial position or performance.

Amendments to PAS 12, Income Taxes – Deferred Income Tax: Recovery of Underlying Assets. The amendments clarified the determination of deferred income tax on investment property measured at fair value. The amendments introduced a rebuttable presumption that deferred income tax on investment property measured using the fair value model in PAS 40, Investment Property, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendment introduces the requirement that deferred income tax on depreciable assets measured using the revaluation model of PAS 16, Property, Plant and Equipment, always be measured on a sale basis of the asset. The adoption of these amendments did not have any impact on our financial position or performance.

We adopted the following new and amended accounting standards effective for annual periods beginning on or after January 1, 2013 in our accompanying consolidated financial statements as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010 that have been prepared for inclusion in the prospectus for purposes of the Parent Company's bond offering.

Amendments to PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights of set–off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set–off in accordance with PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar arrangement", irrespective of whether they are set–off in accordance with PAS 32. The amendments affect disclosures only and have no impact on our financial position or performance. The additional disclosure required by the amendments is presented in Note 27 – Financial Assets and Liabilities.

**PFRS 10, Consolidated Financial Statements.** PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements, which addresses the accounting for consolidated financial statements. It also includes the issues raised in *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities.* PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

As a result of the adoption of *PFRS 10*, we changed our accounting policy with respect to determining whether we have control over and consequently whether we consolidate our investees. *PAS 10* introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if, and only if, we have: (1) the power over the investee, i.e., the investor has existing rights that give it the ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns; (2) the exposure, or rights, to variable returns from its involvement with the investees; and (3) the ability to use its power over the investee to affect the amount of the investor's returns.

In accordance with the transitional provisions of *PFRS 10*, we re-assessed the control conclusion for our investees beginning January 1, 2013 and based on the reassessment there were no additional investees that should be consolidated on the basis of the above circumstances and therefore, the adoption of this revised standard has no impact on our financial position or performance.

**PFRS 11, Joint Arrangements.** PFRS 11 superseded PAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. PFRS 11 removes the option to account for jointly controlled entities, or JCEs, using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

As a result of the adoption of *PFRS 11*, we changed our accounting policy with respect to our interest in joint arrangements.

Under *PFRS 11*, we classified our interest in joint arrangements as either joint operations or joint ventures depending on our rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, we consider the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

We re-evaluated our involvement in our joint arrangements and assessed that its classification as joint ventures is in accordance with *PFRS 11* and therefore, the adoption of this revised standard has no impact on our financial position or performance.

**PFRS 12, Disclosure of Interests in Other Entities.** *PFRS 12* includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in *PAS 31* and *PAS 28, Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of the revised standard has no significant impact on our consolidated financial statements. See also Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation and Note 10 – Investments in Associates, Joint Venture and Deposits for a more comprehensive disclosure about our interest in subsidiaries, associates and joint ventures. The impact of the adoption affects disclosures only.

**Revised PAS 19, Employee Benefits.** Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

The Revised *PAS 19* requires all actuarial gains and losses under defined benefit plans to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised *PAS 19*, we recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised *PAS 19*, we changed our accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised *PAS 19* replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised *PAS 19* also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised *PAS 19* modified the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The changes in our accounting policies as a result of the adoption of the Revised PAS 19 have been applied retrospectively.

Consequently, we reviewed our existing employee benefits and determined that the revised standard has significant impact on our accounting for defined benefit retirement plans. We obtained the services of an external actuary to compute the impact on the consolidated financial statements upon adoption of the standard and have increased (decreased) the following accounts in our consolidated statements of financial position as at December 31, 2012 and 2011, and January 1, 2011 and our consolidated statements of income for the years ended December 31, 2012, 2011 and 2010:

|   | As at December 31, |                   | As at January 1, |
|---|--------------------|-------------------|------------------|
|   | 2012               | 2011              | 2011             |
|   |                    | (in million pesos | )                |
| Increase (decrease) in:   |                    |                   |                  |
| Consolidated Statements of Financial Position                           |                    |                   |                  |
| Prepaid benefit costs under prepayments – net of current portion        | (6,393)            | 2,828             | 401              |
| Accrued benefit costs under pension and other employee benefits         | 160                | (57)              | (79)             |
| Accrued benefit costs under liabilities directly associated with assets |                    |                   |                  |
| classified as held-for-sale   | (18)               | -                 | -                |
| Assets classified as held-for-sale                                      | (2)                | -                 | -                |
| Deferred income tax assets – net  | 1,908              | (858)             | (133)            |
| Other comprehensive income – net of tax                                 | (4,177)            | 2,099             | _                |
| Reserves of a disposal group classified as held-for-sale                | 45                 | -                 | -                |
| Retained earnings   | (499)              | (72)              | 347              |
| Noncontrolling interests  | 2                  | _                 | -                |

|   | For the Years Ended December 31, |       |       |  |
|---|----------------------------------|-------|-------|--|
|   | 2012                             | 2011  | 2010  |  |
|   | (in million pesos)               |       |       |  |
| Consolidated Income Statement                               |                                  |       |       |  |
| Net benefit costs under pension and other employee benefits | 244                              | 322   | 611   |  |
| Net benefit income under other income                       | (190)                            | (321) | -     |  |
| Income tax expense  | (128)                            | (188) | (181) |  |
| Income after tax from discontinued operations               | (117)                            | 36    | (4)   |  |
| Profit attributable to equity holders of PLDT               | (427)                            | (419) | (434) |  |
| Noncontrolling interest                                     | 4                                | _     | _     |  |

Our adoption of this standard also affected the recognition of termination benefits, wherein certain cost of manpower rightsizing program, or MRP, accrued based on formal detailed plan on December 31, 2012 was reversed and was recognized in 2013 based on the date of actual acceptance of the employees by signing the acceptance letter. This reduced our consolidated deferred income tax assets – net by Php166 million, accrued expenses and other current liabilities by Php1,287 million and retained earnings by Php1,121 million as at December 31, 2012.

As a result of the adoption of *PAS 19*, our consolidated basic and diluted EPS attributable to common equity holders of PLDT increased by Php3.21 for the year ended December 31, 2012 and decreased by Php2.19 and Php2.32 for the years ended December 31, 2011 and 2010, respectively.

The Revised *PAS 19* requires additional disclosures for defined benefit plans. These disclosures, among others, include the following: (a) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation.

**Revised PAS 27, Separate Financial Statements.** As a consequence of the new *PFRS 10* and *PFRS 12, PAS 27* is now limited to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

This revised standard has no impact on our financial position or performance.

**Revised PAS 28, Investments in Associates and Joint Ventures.** Superseding PAS 28, Investments in Associates, is PAS 28, Investments in Associates and Joint Ventures, which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

This revised standard has no impact on our financial position or performance.

Amendments to PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that may not be reclassified at any point in time. The amendment solely affects presentation and therefore has no impact on our financial position or performance.

### Improvements to PFRS

**PFRS 1, First-time Adoption of International Financial Reporting Standards.** The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply *PFRS 1*, even if the entity applied *PFRS 1* in a previous reporting period; or (b) apply PFRS retrospectively in accordance with *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors,* in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carryforward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with *PAS 23, Borrowing Costs.* The amendment has no impact on our financial position or performance, as we are not a first-time adopter of PFRS.

**PAS 1, Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.** The amendment requires an entity to present a: (a) comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period; and (b) opening statement of financial position (known as the "third balance sheet") when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement will be at the beginning of the preceding period. The amendment has no impact on our financial position or performance.

**PAS 16, Property, Plant and Equipment – Classification of Servicing Equipment.** The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement has no impact on our financial position or performance.

**PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments.** The amendment removes existing income tax requirements from *PAS 32* and requires entities to apply requirements in *PAS 12, Income Taxes,* to any income tax arising from distributions to equity holders. The amendment has no impact on our financial position or performance.

**PAS 34, Interim Financial Reporting and Segment Information for Total Assets and Liabilities.** The amendment clarifies the requirements in *PAS 34* relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirement in *PFRS 8, Operating Segments*. The amendment has no impact on our financial position or performance.

In addition to the above-mentioned amendments and new standards, *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards,* was amended with effect for reporting periods starting on or after January 1, 2013. We are not a first-time adopter of PFRS, therefore, this amendment is not relevant to us.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

### Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer has the option to measure the components of the noncontrolling interest in the acquiree that are present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *PAS 39, Financial Instruments: Recognition and Measurement,* is measured at fair value with changes in fair value recognized either in profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of *PAS 39,* it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain in the form of negative goodwill is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. At measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

## Investments in Associates

An associate is an entity in which we have significant influence, but no control or joint control, over the financial and operating policies. The existence of significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity. Significant influence is also exemplified when we have: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes transaction costs. The details of our investments in associates are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Associates*.

Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statements: (1) statement of comprehensive income; and (2) statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profits or losses of our associates is shown on the face of our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or has made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

## Joint Arrangements

Joint arrangements are arrangements of which we have joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation.
- Joint venture when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, same as investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Joint Ventures*.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture. Upon loss of joint control and provided that the former joint venture does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

### Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SHPL, SGP, 3<sup>rd</sup> Brand, SMHC, SMI, TSI, FECL Group, PLDT Global and its subsidiaries, PGNL, DCPL, PGIH and certain of its subsidiaries, and certain subsidiaries of Chikka and AGS) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, PGIH and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and the functional currency of SHPL, SGP, 3<sup>rd</sup> Brand, and certain subsidiaries of AGS is the Singapore dollar. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### Noncurrent Assets Held-for-sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held-for-sale are neither depreciated nor amortized.

### Financial Instruments – Initial recognition and subsequent measurement

### **Financial Assets**

#### Initial recognition and measurement

Financial assets within the scope of *PAS 39* are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

#### Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

## Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income" for non-derivative financial assets (positive net changes in fair value). Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated income statement under "Interest income" and "Other income", respectively.

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

Our financial assets at FVPL include portions of short-term investments as at December 31, 2012 and January 1, 2011, portions of short-term investments and overlay principal only-currency swap as at December 31, 2011 and January 1, 2011, forward foreign exchange contracts as at December 31, 2011 and bifurcated embedded derivatives as at January 1, 2011. See Note 27 – Financial Assets and Liabilities.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include cash and cash equivalents, trade and other receivables, portions of short-term and long-term investments, and portions of advances and other noncurrent assets as at December 31, 2012 and 2011, and January 1, 2011. See Note 15 – Cash and Cash Equivalents, Note 16 – Trade and Other Receivables and Note 27 – Financial Assets and Liabilities.

#### HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portion of investment in debt securities and other long-term investments as at December 31, 2012 and 2011, and January 1, 2011. See Note 11 – Investment in Debt Securities and Other Long-term Investments and Note 27 – Financial Assets and Liabilities.

#### Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the available-for-sale reserve account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated income statement. Interest earned on holding available-for-sale financial investments are included under "Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

For a financial investment reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at December 31, 2012 and 2011, and January 1, 2011. See Note 27 – Financial Assets and Liabilities.

## Financial Liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of *PAS 39* are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

### Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

### Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only currency swaps, interest rate swaps and an equity forward sale contract as at December 31, 2012, long-term principal only currency swaps, interest rate swaps and forward foreign exchange contracts as at December 31, 2011 and long-term principal only currency swaps as at January 1, 2011. See *Note 27 – Financial Assets and Liabilities.* 

#### Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities, with the exemption of statutory payables, interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at December 31, 2012 and 2011, and January 1, 2011. See Note 20 – Interest-bearing Financial Liabilities, Note 21 – Deferred Credits and Other Noncurrent Liabilities, Note 22 – Accounts Payable, and Note 23 – Accrued Expenses and Other Current Liabilities.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), at the close of business at the end of the reporting period without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 27 – Financial Assets and Liabilities.* 

#### Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

### "Day 1" difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a "Day 1" difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the "Day 1" difference amount.

### Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## Impairment of Trade and Other Receivables

#### Individual impairment

#### Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber.

#### Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, counterparty's payment history and industry-observed settlement periods.

### Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

#### Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances regardless of the age of balances.

### Collective impairment

### Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

### Other subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

## Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

#### Available-for-sale financial investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investment is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20.0% or more below the original cost of investment, and "prolonged" as greater than 12 months. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost less any impairment loss on that investment previously recognized in our consolidated income statement and the current fair value. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

### Derecognition of Financial Assets and Liabilities

#### Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

## Derivative Financial Instruments and Hedge Accounting

#### Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See Note 27 – Financial Assets and Liabilities.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an equity forward contract to hedge the sale of Philweb shares. See Note 27 – Financial Assets and Liabilities – ePLDT Group.

#### Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

We use a loan as a hedge of its exposure to foreign exchange risk on its investment in foreign subsidiaries. See *Note 27 – Financial Assets and Liabilities* for more details.

#### Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

## Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the asset if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property, plant and equipment.

Depreciation and amortization commence once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life, and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment and are adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for commercial service.

# **Borrowing Costs**

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to our borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs incurred during the period, and the period during the period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

## Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense. See Note 21 – Deferred Credits and Other Noncurrent Liabilities.

### Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the carrying amount of the owner occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

No assets held under operating lease have been classified as investment properties.

### Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The estimated useful lives used in amortizing our intangible assets are disclosed in Note 14 - Goodwill and Intangible Assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

#### Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventories and supplies to its present location and condition are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business, less the estimated cost to sell or determining the prevailing replacement costs.

### Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

### Property, plant and equipment

For property, plant and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

#### Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

### Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which the carrying amount of the CGU, or group of CGUs, to which goodwill by assessing the recoverable amount of the CGU, and impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to CGUs, or group of CGUs, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

#### Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

## Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as "Interest income" in our consolidated income statement.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are shortterm, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

### Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

#### Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be sold separately or bundled with goods or other services. The specific recognition criteria are as follows:

#### Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges generated from postpaid cellular voice and data services through the postpaid plans of Smart and *Sun Cellular*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognized on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid services include over-the-air reloading channels and prepaid cards provided by *Smart Prepaid*, *Talk 'N Text* and *Sun Cellular*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, short messaging services, or SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e. free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Nonrecurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

### Connecting carriers

Interconnection revenue for call termination, call transit and network usages is recognized in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

### Value-Added Services, or VAS

Revenues from VAS include SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), MMS, content downloading and infotext services. The amount of revenue recognized is net of amount settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers.

#### Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

#### Multiple-deliverable arrangements

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

#### Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service is performed.

# Service revenues from discontinued operations

Our revenues are principally derived from knowledge processing solutions and customer relationship management services in the business process outsourcing business.

Revenue from outsourcing contracts under our knowledge processing solutions and customer relationship management businesses are recognized when evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable, and collectability is reasonably assured. If the fee is not fixed or determinable, or collectability is not reasonably assured, revenue is not recognized until payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptable period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received. Revenue contingent on meeting specific performance conditions are recognized to the extent of costs incurred to provide the service. Outsourcing contracts may also include incentive payments dependent on achieving performance targets. Revenue relating to such incentive payments is recognized when the performance target is achieved.

#### Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in the consolidated income statements.

#### Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

#### Dividend income

Revenue is recognized when our right to receive the payment is established.

### Expenses

Expenses are recognized as incurred.

### Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

### Retirement Benefits

### Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

## Defined contribution plans

Smart and certain of its subsidiaries have a host defined contribution plan under which it recognizes an expense for contribution made to such plan in relation to services rendered by covered employees. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, such excess is recognized as a prepaid asset to the extent that the prepayment will lead to a reduction in future payments. When the expected future value of the plan assets is below the future expected value of the retirement benefits prescribed under Republic Act No. 7641, or R.A. 7641 otherwise known as "The Retirement Pay Law", such deficit is accounted for similar to defined benefit accounting. See Note 25 – Employee Benefits – Smart's Retirement Plan for more details.

### Other Long-term Employee Benefits

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, and 2012 to 2014 Long-term Incentive Plan, or the revised LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in profit or loss. See Note 25 – Employee Benefits – Other Long-term Employee Benefits for more details.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

## Income Taxes

#### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

#### Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

# VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) receivables and payables that are stated with the amount of VAT included.

## Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

## Events After the End of the Reporting Period

Post year-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

# Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRSs.

#### New Accounting Standards and Amendments and Interpretations to Existing Standards not yet Effective

We will adopt the following standard, amendments and interpretation to existing standards enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these standard, amendments and interpretation to PFRS to have a significant impact on our consolidated financial statements.

### Effective 2013

**PFRS 13, Fair Value Measurement.** *PFRS 13* establishes a single source of guidance under PFRS for all fair value measurements. *PFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013.

We are currently assessing the impact that this standard will have on our financial position and performance, but based on our preliminary assessment, the impact is expected to be immaterial.

### Effective 2014

Amendments to PFRS 10, Consolidated Financial Statements – Investment Entities. The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. New disclosure requirements relating to investment entities were added in PFRS 12 and PAS 27. The amendments to PFRS 10 are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to PFRS 10 on our financial position or performance.

Amendments to PFRS 12, Disclosure of Interests in Other Entities – Investment Entities. The amendments require a parent that is an investment entity to disclose information about significant judgments and assumptions it has made in determining that it is an investment entity, as well as and any changes thereto. A parent that is an investment entity is also required to disclose certain information on unconsolidated subsidiaries, which are accounted for at fair value through profit and loss. The amendments to *PFRS 12* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PFRS 12* on our financial position or performance.

Amendments to PAS 27, Separate Financial Statements – Investment Entities. The amendments require a parent that is an investment entity and does not consolidate its subsidiaries in accordance with the exceptions of *PFRS 10*, to present a separate financial statement as its only financial statement. The amendments to *PAS 27* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PAS 27* on our financial position or performance.

Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to setoff" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on our net assets, any changes in offsetting are expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to PAS 32 on our financial position or performance.

Amendments to PAS 36, Recoverable Amount of Disclosures for Non-Financial Assets. The amendments clarify that recoverable amount disclosure only applies to impaired assets or CGU. If the recoverable amount is fair value less costs of disposal, an entity is required to disclose: (1) the level of the fair value hierarchy within which the fair value measurement of the asset is categorized in its entirety; (2) a description of the valuation technique used to measure fair value less costs of disposal or fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; and (3) the discount rate used in the current and previous measurement if fair value less cost of disposal is measured using a present value technique. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which *PFRS 13* is not applied. The amendments affect disclosures only and have no impact on our financial position or performance.

*Philippine Interpretation IFRIC 21, Levies.* The interpretation clarifies when a liability for a levy should be recognized and is effective for annual periods beginning on or after January 1, 2014. The interpretation has no significant impact on our financial position or performance.

## Effective 2015

**PFRS 9, Financial Instruments: Classification and Measurement.** *PFRS 9* as issued reflects the first phase on the replacement of *PAS 39* and applies to the classification and measurement of financial assets and financial liabilities as defined in *PAS 39*. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

We have made an evaluation of the impact of the adoption of this standard. We decided not to early adopt *PFRS 9* for our 2013 reporting ahead of its effectivity date on January 1, 2015, therefore, the consolidated financial statements as at and for the nine months ended September 30, 2013 do not reflect the impact of the said standard.

Only financial assets and liabilities will be affected by the standard and based on this evaluation, loans and receivables (consisting of short-term placements, trade and other receivables, and advances), investment in debt securities and other long-term investments, and financial liabilities (consisting of accounts payable, accrued expenses, customers' deposits, deferred credits, long-term debt, notes payable, obligations under finance leases, and dividends payable), which are carried at amortized cost will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at their amortized cost, thus, will have no significant financial impact to our financial position and performance. For the derivative financial assets and liabilities, we will still carry them at fair value through profit and loss. For our current available-for-sale investments which are composed of equity investments carried at fair value, we plan to classify these items at fair value through other comprehensive income, thus, this has no significant financial impact to our financial position and performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## 3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

## Judgments

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

## Assets held-for-sale and discontinued operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-forsale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiations with a potential buyer not lead to a sale, we expect to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statements for the years ended December 31, 2011 and 2010 to present the results of operations of our BPO segment as discontinued operations. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. Thus, the investment in Philweb was classified as assets held-for-sale as at December 31, 2012. See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Philweb and Note 27 – Financial Assets and Liabilities – ePLDT Group.

### Classifying HTM investments

The classification of financial assets to HTM investments requires significant judgment. In making this judgment, PLDT Group evaluates its intention and ability to hold such investments to maturity. If PLDT Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of available-for-sale financial investments. The investments would thereafter be measured at fair value and not at amortized cost.

Our investments in certain quoted debt securities are classified as HTM investments. See Note 11 – Investment in Debt Securities and Other Long-term Investments.

#### Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for, SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, PGIH and certain of its subsidiaries, and certain subsidiaries of Chikka, which use the U.S. dollar. SHPL, SGP, 3<sup>rd</sup> Brand, and certain subsidiaries of AGS use the Singapore dollar as functional currency.

As a result of the internal reorganization within PLDT wherein BPO is now classified as an independent operating segment under PGIH, management undertook a review of the functional currency exposures of PGIH and certain of its subsidiaries in December 2011. Based on management's assessment, PGIH and SPi CRM's new currency exposures are now largely U.S. dollars. Based on the aforementioned consideration, which is set forth in *PAS 21, The Effects of Changes in Foreign Exchange Rates,* PGIH and SPi CRM commenced adopting U.S. dollars as its functional currency on December 6, 2011. See discussions in *Note 2 – Summary of Significant Accounting Policies – Foreign Currency Transactions and Translations* and *Note 4 – Operating Segment Information.* 

#### Leases

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php5,860 million, Php3,938 million and Php3,699 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php263 million, Php224 million and Php271 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total finance lease obligations from continuing operations amounted to Php18 million, Php14 million and Php43 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php7 million as at December 31, 2012. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases and Note 27 – Financial Assets and Liabilities – Liquidity Risk.* 

# PLDT's acquisition of Digitel

Our acquisition of 51.6% equity interest in Digitel and the mandatory tender offer for the Digitel shares held by the public or noncontrolling shareholders were accounted for as linked transactions and as a single business combination due to the following: (a) the price per share offered to remaining noncontrolling interest is fixed and the same price as what we offered to acquire the controlling interest of JGSHI; (b) the remaining noncontrolling shareholders of Digitel did not negotiate to receive the offer; (c) although the offer was initiated by PLDT, it stemmed from a regulatory requirement triggered by the acquisition of controlling interest in Digitel; and (d) the offer period is relatively short period of time.

As the acquisition of 51.6% equity interest and the mandatory tender offer were accounted for as linked transactions, we accounted for the business combination as if we have acquired 100% equity interest at the closing date of the transaction on October 26, 2011. A mandatory tender offer option liability is recognized and treated as part of consideration transferred in addition to the fair value of PLDT common shares issued to JGSHI. At the end of the tender offer period on January 16, 2012, the mandatory tender offer option liability is derecognized and corresponding settlement either in shares or in cash is recorded for those who opted for the mandatory tender offer option liability is derecognized and noncontrolling interest is set-up measured as of the date of acquisition. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel.

## Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of PLDT. Such changes are reflected in the assumptions when they occur.

#### Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The full impairment provision recognized represents the net book value of these network equipment and facilities. See Note 9 – Property, Plant and Equipment – Impairment of Certain Network Equipment and Facilities of Smart.

In December 2012, DMPI recognized an impairment loss of Php2,881 million pertaining to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart. The network modernization program resulted in network impairment of DMPI due to advancement in technologies. See Note 9 – Property, Plant and Equipment – Impairment of Certain Network Equipment and Facilities of DMPI.

Total asset impairment on noncurrent assets from continuing operations amounted Php2,896 million, Php8,514 million and Php478 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to nil, Php3 million and Php1,018 million for the years ended December 31, 2012, 2011 and 2010, respectively. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 –Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 9 – Property, Plant and Equipment.

The carrying values of our property, plant and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in *Notes 9, 10, 14* and *18*, respectively.

#### Estimating useful lives of property, plant and equipment and intangible assets with finite life

We estimate the useful lives of each item of our property, plant and equipment and intangible assets with finite life based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment and intangible assets with finite life is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment and intangible assets with finite life are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment and intangible assets with finite life would increase our recorded depreciation and amortization and decrease our property, plant and equipment and intangible assets. The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php32,354 million, Php27,539 million and Php25,881 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php466 million, Php418 million and Php396 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization from continuing operations, amounted to Php200,078 million, Php200,142 million and Php163,184 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php1,529 million as at December 31, 2012.

Intangible assets acquired from business combination with finite lives are amortized over the expected useful life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets from continuing operations with finite life amounted to Php921 million, Php117 million and Php163 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php180 million, Php147 million and Php225 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of intangible assets with finite life from continuing operations amounted to Php7,505 million, Php8,698 million and Php1,378 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php354 million as at December 31, 2012.

See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information, Note 9 – Property, Plant and Equipment and Note 14 – Goodwill and Intangible Assets.

### Determining the fair value of investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php21 million, Php26 million and Php6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of our investment properties amounted to Php712 million, Php1,115 million and Php1,560 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See *Note 12 – Investment Properties*.

#### Goodwill and intangible assets with indefinite useful life

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Total carrying values of goodwill and intangible assets with indefinite useful life from continuing operations amounted to Php66,745 million, Php74,605 million and Php10,107 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php6,679 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Note 14 – Goodwill and Intangible Assets.

### Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets. Based on Smart and SBI's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php15,351 million, Php16,098 million and Php1,477 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php3,655 million, Php4,240 million and Php2,803 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. Total consolidated benefit from deferred income tax from continuing operations amounted to Php957 million and Php986 million for the years ended December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php28 million and Php275 million for the years ended December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php28 million for the years ended December 31, 2012 and 2011, respectively. Total consolidated provision for deferred income tax amounted to Php1,341 million for the year ended December 2010 from continuing operations amounted to Php64 million. Total consolidated net deferred income tax assets from continuing operations amounted to Php7,225 million, Php5,117 million and Php5,977 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php7,225 million, Php5,117 million and Php5,977 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php7,225 million, Php5,117 million and Php5,977 million as at December 31, 2012 and 2011, and January 1, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information and Note 7 – Income Taxes.

### Estimating allowance for doubtful accounts

If we assessed that there was an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php2,175 million, Php1,543 million and Php834 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php3 million, Php6 million and Php1 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php3 million, Php6 million and Php1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Trade and other receivables, net of allowance for doubtful accounts, from continuing operations amounted to Php16,379 million, Php16,245 million and Php16,428 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php2,704 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 16 – Trade and Other Receivables and Note 27 – Financial Assets and Liabilities.

## Estimating net realizable value of inventories and supplies

We write-down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php215 million, Php143 million and Php108 million for the years ended December 31, 2012, 2011 and 2010, respectively. The carrying values of inventories and supplies amounted to Php3,467 million, Php3,827 million and Php2,219 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 17 – Inventories and Supplies.

#### Estimating pension benefit costs and other employee benefits

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. See *Note 25 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php525 million, Php561 million and Php797 million for the years ended December 31, 2012, 2011 and 2010, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php170 million, Php8 million and Php54 million for the years ended December 31, 2012, 2011 and 2010, respectively. The prepaid benefit costs from continuing operations amounted to Php170 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The accrued benefit costs from continuing operations amounted to Php488 million and Php537 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The accrued benefit costs from continuing operations amounted to Php492 million, Php438 million and Php337 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, while that from discontinued operations amounted to Php206 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments and Note 25 – Employee Benefits – Defined Benefit Pension Plans.

The 2010 to 2012 LTIP, covering the period from January 1, 2010 to December 31, 2012, was presented to and approved by the Executive Compensation Committee, or ECC, and the Board of Directors, and was based on profit targets for the covered performance cycle. The cost of 2010 to 2012 LTIP was determined using the projected unit credit method based on prevailing discount rates and profit targets. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at January 1, 2011, but based on our projections in 2011, the profit targets for the covered performance cycle were no longer achievable, thus, the accrued LTIP cost as at January 1, 2011 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. We currently do not expect to make any payouts under the 2010 to 2012 LTIP. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 25 – Employee Benefits – Other Long-term Employee Benefits.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs and liability recognized as at and for the year ended December 31, 2012 amounted to Php1,491 million. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 25 – Employee Benefits – Other Long-term Employee Benefits.

#### Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,543 million, Php2,107 million and Php1,344 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

#### Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 – Provisions and Contingencies*.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

### Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *PAS 18, Revenue Recognition,* and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

#### Determination of fair values of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities as at December 31, 2012 amounted to Php68,961 million and Php233,541 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2011 amounted to Php72,002 million and Php216,443 million, respectively. Total fair values of financial assets and liabilities as at January 1, 2011 amounted to Php55,538 million and Php167,396 million, respectively. See *Note 27 – Financial Assets and Liabilities*.

#### 4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker, or our Management Committee, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have four reportable operating segments, as follows:

- Wireless wireless telecommunications services provided by Smart, CURE (the *Red Mobile* business of CURE was transferred to Smart on June 30, 2012), and DMPI, which owns the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and 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, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 13% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT, IPCDSI and AGS Group; and netGames; and bills printing and other VAS-related services provided by ePDS;
- BPO knowledge processing solutions provided by the SPi Group; and customer relationship management provided by SPi CRM, SGIL Group and Infocom; and
- Others PCEV, an investment company.

See Note 2 – Summary of Significant Accounting Policies and Note 13 – Business Combinations and Acquisition of Noncontrolling Interests, for further discussion.

On October 26, 2011, we acquired Digitel Group with the following effects on our operating segments: (i) the addition of DMPI to our wireless business; and (ii) the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand.

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

On July 5, 2011, our Board of Directors approved to spin-off SPi and SPi CRM from ePLDT and transferred 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, on March 30, 2010 and subsequently transferred 154.2 million and 68.8 million Meralco common shares to Beacon on May 12, 2010 and October 25, 2011, respectively. As a result, PCEV became an investment company and was reclassified from Wireless to Others business segment.

As at December 31, 2012, our chief operating decision maker views our business activities in four business units: Wireless, Fixed Line, BPO and Others. The BPO business unit was classified as disposal group held-for-sale and discontinued operations, see Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations. The remaining ICT businesses, which did not form part of our BPO, were reclassified into our fixed line segment.

The chief operating decision maker and management monitor the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income (loss) in the consolidated financial statements.

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

EBITDA margin for the year is measured as EBITDA divided by service revenues.

Core income for the year 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 nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the year is measured as core income divided by the weighted average number of common shares. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares.

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statement, which is in accordance with PFRS.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | Wireless | Fixed Line | BPO    | Others |                | Consolidated | Discontinued<br>Operations | Continuin<br>Operation |
|---|----------|------------|--------|--------|----------------|--------------|----------------------------|------------------------|
|   |          |            |        | (in I  | million pesos) |              |                            |                        |
| December 31, 2012 <sup>(1)</sup>  |          |            |        |        |                |              |                            |                        |
| Revenues  |          |            |        |        |                |              |                            |                        |
| External customers  | 114,690  | 48,794     | 9,142  | -      | -              | 172,626      | 9,142                      | 163,484                |
| Service revenues (Notes 2 and 3)  | 112,537  | 47,652     | 9,142  | -      | -              | 169,331      | 9,142                      | 160,189                |
| Non-service revenues (Notes 3 and 5)  | 2,153    | 1,142      | -      | -      | -              | 3,295        | -                          | 3,295                  |
| Inter-segment transactions  | 1,672    | 11,473     | -      | -      | (13,145)       | -            | -                          | -                      |
| Service revenues (Note 3)   | 1,672    | 11,440     | -      | -      | (13,112)       | -            | -                          | -                      |
| Non-service revenues (Notes 3 and 5)  | -        | 33         | -      | -      | (33)           | -            | -                          | -                      |
| Total revenues  | 116,362  | 60,267     | 9,142  | -      | (13,145)       | 172,626      | 9,142                      | 163,484                |
| Results   |          |            |        |        |                |              |                            |                        |
| Depreciation and amortization (Notes 3 and 9)   | 19.000   | 13.354     | 466    |        |                | 32,820       | 466                        | 32.354                 |
| Asset impairment  | .,       | .,         |        | -      | -              |              |                            | . ,                    |
| (Notes 3, 5, 9, 10, 16, 17 and 27)  | 4,218    | 1,068      | 3      | -      | -              | 5,289        | 3                          | 5,286                  |
| Equity share in net earnings (losses) of associates   |          |            |        |        |                |              |                            |                        |
| and joint ventures (Note 10)  | (78)     | 108        | -      | 1,508  | -              | 1,538        | -                          | 1,538                  |
| Interest income (Notes 2 and 5)   | 565      | 713        | 16     | 76     | -              | 1,370        | 16                         | 1,354                  |
| Financing costs – net (Notes 2, 5, 9, 20 and 27)<br>Provision for (benefit from) income tax | 2,683    | 4,193      | 24     | -      | -              | 6,900        | 24                         | 6,876                  |
| (Notes 3 and 7)   | 8.094    | (51)       | 428    | 7      | _              | 8.478        | 428                        | 8.050                  |
| Net income / Segment profit   | 25,014   | 5,740      | 1.012  | 4.333  | _              | 36,099       | 543                        | 35,556                 |
| EBITDA  | 54.480   | 20.089     | 1,950  | (18)   | 396            | 76.897       | 1.509                      | 75.388                 |
| EBITDA margin   | 48%      | 34%        | 20%    | (10)   | 390            | 46%          | 17%                        | 47%                    |
| Core income   | 25.694   | 5.769      | 1.020  | 4.424  | -              | 36,907       | 551                        | 36.356                 |
| Assets and liabilities<br>Operating assets  | 202,494  | 182,223    | 13,003 | 9,979  | (37,036)       | 370,663      | 12,900                     | 357,763                |
| Investments in associates, joint ventures and   |          |            |        |        |                |              |                            |                        |
| deposits (Notes 3, 5 and 10)  | 54       | 6,222      | -      | 20,801 | -              | 27,077       | -                          | 27,077                 |
| Deferred income tax assets – net (Notes 3 and 7)  | 754      | 6,471      | 212    | -      | -              | 7,437        | 212                        | 7,225                  |
| Assets classified as held-for-sale (Notes 2 and 10)   | -        | 638        | -      | -      | -              | 638          | -                          | 638                    |
| Total assets  | 203,302  | 195,554    | 13,215 | 30,780 | (37,036)       | 405,815      | 13,112                     | 392,703                |
| Operating liabilities   | 134,524  | 138,338    | 3,005  | 4,788  | (26,434)       | 254,221      | 2,464                      | 251,757                |
| Deferred income tax liabilities – net (Notes 3 and 7)                                       | 4.918    | 795        | 147    |        | (20,101)       | 5.860        | 147                        | 5,713                  |
| Total liabilities   | 139,442  | 139,133    | 3,152  | 4,788  | (26,434)       | 260.081      | 2,611                      | 257,470                |
| Total liabilities   | 100,442  | 103,100    | 0,102  | 4,700  | (20,404)       | 200,001      | 2,011                      | 251,470                |
| Other segment information   |          |            |        |        |                |              |                            |                        |
| Capital expenditures, including capitalized   | 00.050   | 10 700     | 610    |        |                | 00.000       |                            | 00.000                 |
| interest (Notes 5, 9, 20 and 21)  | 22,058   | 13,726     | 612    | -      | _              | 36,396       | -                          | 36,396                 |
| December 31, 2011 <sup>(1, 2 and 3)</sup>   |          |            |        |        |                |              |                            |                        |
| Revenues  |          |            |        |        |                |              |                            |                        |
| External customers  | 102,043  | 46,436     | 8,124  | -      | -              | 156,603      | 8,124                      | 148,479                |
| Service revenues (Notes 2 and 3)  | 100,574  | 45,260     | 8,124  | -      | -              | 153,958      | 8,124                      | 145,834                |
| Non-service revenues (Notes 3 and 5)  | 1,469    | 1,176      | -      | -      | -              | 2,645        | -                          | 2,645                  |
| Inter-segment transactions  | 1,495    | 11,854     | 464    | _      | (13,813)       | _            | _                          | -                      |
| Service revenues (Note 3)   | 1,495    | 11,836     | 464    | _      | (13,795)       | _            | -                          | _                      |
| Non-service revenues (Notes 3 and 5)  | .,       | 18         | -      | _      | (18)           | _            | -                          | _                      |
| Total revenues  | 103,538  | 58,290     | 8.588  |        | (13,813)       | 156,603      | 8.124                      | 148,479                |
| I ULAI I EVELIUES   | 100,000  | 56,290     | 0,000  | _      | (13,013)       | 100,000      | 0,124                      | 140,479                |

|   | Wireless      | Fixed Line    | BPO           | Others | Inter-segment<br>Transactions |                  | Discontinued<br>Operations | Continuin<br>Operation |
|---|---------------|---------------|---------------|--------|-------------------------------|------------------|----------------------------|------------------------|
|   |               |               |               | (in r  | nillion pesos)                |                  |                            |                        |
| Results<br>Depreciation and amortization (Notes 3 and 9)  | 14,295        | 13,244        | 418           | _      | _                             | 27,957           | 418                        | 27,539                 |
| Asset impairment  | 14,285        | 10,244        | 410           | -      | -                             | 21,951           | 410                        | 21,508                 |
| (Notes 3, 5, 9, 10, 16, 17 and 27)  | 9,197         | 1,003         | 9             | _      | _                             | 10,209           | 9                          | 10,200                 |
| Equity share in net earnings (losses) of associates   |               |               |               |        |                               |                  |                            | -,                     |
| and joint ventures (Note 10)  | (115)         | 307           | -             | 1,843  | -                             | 2,035            | -                          | 2,035                  |
| Interest income (Notes 2 and 5)   | 677           | 590           | 15            | 90     | -                             | 1,372            | 15                         | 1,357                  |
| Financing costs – net (Notes 2, 5, 9, 20 and 27)  | 2,744         | 3,710         | 37            | -      | -                             | 6,491            | 37                         | 6,454                  |
| Provision for income tax (Notes 3 and 7)  | 8,429         | 2,303         | 118           | 2      | -                             | 10,852           | 118                        | 10,734                 |
| Net income / Segment profit   | 22,366        | 5,847         | 1,020         | 1,985  | _                             | 31,218           | 867                        | 30,351                 |
| EBITDA  | 55,433        | 22,382        | 1,594         | (11)   | 275                           | 79,673           | 1,448                      | 78,225                 |
| EBITDA margin   | 54%<br>29.903 | 39%<br>5,310  | 19%<br>942    | 2,461  | -                             | 52%<br>38,616    | 18%<br>789                 | 54%<br>37,827          |
| Core income   | 29,903        | 5,310         | 942           | 2,401  | _                             | 38,616           | 789                        | 37,827                 |
| Assets and liabilities <sup>(4)</sup>   |               |               |               |        |                               |                  |                            |                        |
| Operating assets  | 172,259       | 256,644       | 13,208        | 9,982  | (73,283)                      | 378,810          | _                          | 378,810                |
| Investments in associates, joint ventures and   | 112,200       | 200,011       | 10,200        | 0,002  | (10,200)                      | 010,010          |                            | 0.0,010                |
| deposits (Notes 3, 5 and 10)  | -             | 1,272         | -             | 16,593 | -                             | 17,865           | -                          | 17,865                 |
| Deferred income tax assets - net (Notes 3 and 7)  | 1,071         | 3,820         | 226           | _      | -                             | 5,117            | -                          | 5,117                  |
| Total assets  | 173,330       | 261,736       | 13,434        | 26,575 | (73,283)                      | 401,792          | -                          | 401,792                |
|   |               |               |               |        |                               |                  |                            |                        |
| Operating liabilities   | 133,030       | 127,642       | 3,221         | 754    | (24,179)                      | 240,468          | -                          | 240,468                |
| Deferred income tax liabilities - net (Notes 3 and 7)   | 1,158         | 1,363         | 107           | -      | 4,450                         | 7,078            | -                          | 7,078                  |
| Total liabilities   | 134,188       | 129,005       | 3,328         | 754    | (19,729)                      | 247,546          | -                          | 247,546                |
| Other segment information   |               |               |               |        |                               |                  |                            |                        |
| Capital expenditures, including capitalized interest  |               |               |               |        |                               |                  |                            |                        |
| (Notes 5, 9, 20 and 21) <sup>(2)</sup>  | 17,152        | 13,654        | 400           | 1      | -                             | 31,207           | -                          | 31,207                 |
|   |               |               |               |        |                               |                  |                            |                        |
| December 31, 2010 <sup>(1 and 2)</sup>  |               |               |               |        |                               |                  |                            |                        |
| Revenues<br>External customers  | 103,186       | 47,628        | 7,573         |        |                               | 158,387          | 7,573                      | 150,814                |
| Service revenues (Notes 2 and 3)  | 101,829       | 46,768        | 7,573         | _      | _                             | 156,170          | 7,573                      | 148,597                |
| Non-service revenues (Notes 3 and 5)  | 1,357         | 40,708        | 7,575         | _      | _                             | 2,217            | 7,575                      | 2,217                  |
| Inter-segment transactions  | 2,195         | 11,277        | 539           | -      | (14,011)                      | 2,211            | _                          | 2,217                  |
| Service revenues (Note 3)   | 2,195         | 11,220        | 539           | _      | (13,954)                      | _                | _                          | -                      |
| Non-service revenues (Notes 3 and 5)  |               | 57            | -             | _      | (57)                          | _                | -                          | -                      |
| Total revenues  | 105,381       | 58,905        | 8,112         | -      | (14,011)                      | 158,387          | 7,573                      | 150,814                |
|   |               |               |               |        |                               |                  |                            |                        |
| Results<br>Depreciation and amortization (Notes 3 and 9)  | 13,243        | 12,638        | 396           | _      | _                             | 26,277           | 396                        | 25,881                 |
| Asset impairment  | 13,243        | 12,000        | 390           | -      | -                             | 20,211           | 390                        | 20,001                 |
| (Notes 3, 5, 9, 10, 16, 17 and 27)  | 824           | 596           | 1,018         | -      | _                             | 2,438            | 1,018                      | 1,420                  |
| Equity share in net earnings (losses) of associates   | 02.           | 000           | 1,010         |        |                               | 2,100            | 1,010                      | 1,120                  |
| and joint ventures (Note 10)  | (7)           | 186           | _             | 1,229  | _                             | 1,408            | -                          | 1.408                  |
| Interest income (Notes 2 and 5)   | 551           | 482           | 20            | 147    | -                             | 1,200            | 20                         | 1,180                  |
| Financing costs - net (Notes 2, 5, 9, 20 and 27)  | 2,681         | 3,847         | 168           | 2      | -                             | 6,698            | 168                        | 6,530                  |
| Provision for income tax (Notes 3 and 7)  | 11,411        | 1,897         | (64)          | 1      | -                             | 13,245           | 64                         | 13,309                 |
| Net income / Segment profit   | 34,020        | 4,720         | (266)         | 1,351  | -                             | 39,825           | (489)                      | 40,314                 |
| EBITDA  | 58,998        | 22,492        | 1,266         | (19)   | 365                           | 83,102           | 1,053                      | 82,049                 |
| EBITDA margin   | 57%           | 39%           | 16%           | -      | -                             | 53%              | -                          | 55%                    |
| Core income   | 33,347        | 5,420         | 761           | 2,066  | -                             | 41,594           | 538                        | 41,056                 |
| Assets and liabilities  |               |               |               |        |                               |                  |                            |                        |
| Operating assets  | 108,923       | 211,358       | 11,487        | 2,599  | (85,464)                      | 248,903          | _                          | 248,903                |
| Investments in associates, joint ventures and   |               | ,000          | ,             | _,000  | (, .0.)                       | 2.2,300          |                            | 5,000                  |
| deposits (Notes 3, 5 and 10)  | 104           | 928           | _             | 22,171 | -                             | 23,203           | -                          | 23,203                 |
| Deferred income tax assets – net (Notes 3 and 7)  | 41            | 5,932         | 4             | -      | -                             | 5,977            | -                          | 5,977                  |
| Total assets  | 109,068       | 218,218       | 11,491        | 24,770 | (85,464)                      | 278,083          | -                          | 278,083                |
|   | 05 0.10       | 104 170       | 15 100        |        | (00.017)                      | 170.050          |                            | 170 05-                |
| Operating liabilities<br>Deferred income tax liabilities – net (Notes 3 and 7)  | 95,642<br>596 | 104,172<br>23 | 15,160<br>177 | 923    | (36,645)<br>303               | 179,252<br>1,099 | _                          | 179,252<br>1.099       |
| Total liabilities   | 96,238        | 104,195       | 15,337        | 923    | (36,342)                      | 180,351          | -                          | 180,351                |
|   | /===          | . ,           | .,            |        | \                             |                  |                            |                        |
|   |               |               |               |        |                               |                  |                            |                        |
| Other segment information   |               |               |               |        |                               |                  |                            |                        |
| Other segment information<br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21) <sup>(2)</sup> | 16,958        | 11,339        | 468           | 1      |                               | 28,766           |                            | 28,766                 |

(i) As adjusted to reflect the adjustments on the application of PAS 19 and certain presentation adjustments to conform with the current presentation of our business segments. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations in the classification of the BPO segment as an asset held-for-sale for further discussion.

Includes the Digital Group's results of operations for the period from October 26, 2011 to December 31, 2011 and consolidated financial position as at December 31, 2011.

as at December 31, 2011. (\*) The December 31, 2011 comparative segment assets and liabilities was adjusted to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel. See Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel. The following table shows the reconciliation of our consolidated EBITDA to our consolidated net income for the years ended December 31, 2012, 2011 and 2010:

|   | 2012 <sup>(1)</sup> | 2011 <sup>(1, 2 and 3)</sup> | 2010 <sup>(1 and 2</sup> |
|---|---------------------|------------------------------|--------------------------|
|   |                     | (in million pesos)           |                          |
| EBITDA from continuing operations   | 75,388              | 78,225                       | 82,049                   |
| Add (deduct) adjustments to continuing operations:                        |                     |                              |                          |
| Other income (Notes 2 and 18)   | 5,813               | 2,626                        | 1,929                    |
| Foreign exchange gains (losses) – net (Notes 2, 9 and 27)                 | 3,282               | (735)                        | 1,850                    |
| Equity share in net earnings of associates and joint ventures (Note 10)   | 1,538               | 2,035                        | 1,408                    |
| Interest income (Notes 2, 5, 11 and 15)                                   | 1,354               | 1,357                        | 1,180                    |
| Retroactive effect of adoption of Revised PAS 19 (Note 2)                 | 1,287               | -                            | -                        |
| Amortization of intangible assets (Notes 3 and 14)                        | (921)               | (117)                        | (163)                    |
| Gains (losses) on derivative financial instruments - net (Notes 2 and 27) | (2,009)             | 201                          | (1,741)                  |
| Asset impairment on noncurrent assets (Notes 3 and 5)                     | (2,896)             | (8,514)                      | (478)                    |
| Financing costs - net (Notes 2, 5, 9, 20 and 27)                          | (6,876)             | (6,454)                      | (6,530)                  |
| Provision for income tax (Notes 2, 3 and 7)                               | (8,050)             | (10,734)                     | (13,309)                 |
| Depreciation and amortization (Notes 3 and 9)                             | (32,354)            | (27,539)                     | (25,881)                 |
| Total adjustments   | (39,832)            | (47,874)                     | (41,735)                 |
| Net income from continuing operations                                     | 35.556              | 30.351                       | 40.314                   |
| Net income (loss) from discontinued operations (Notes 2 and 8)            | 543                 | 867                          | (489)                    |
| Consolidated net income   | 36,099              | 31,218                       | 39,825                   |

(1) As adjusted to reflect the adjustments on the application of PAS 19. See Note 2 - Summary of Significant Accounting Policies - Changes in Accounting Policies and Disclosures for further discussion.

Disclosures for further discussion.
 As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations in the classification of the BPO segment as an asset held-for-sale for further discussion.
 Includes the Digitel Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2012, 2011 and 2010:

|  | 2012 <sup>(1)</sup> | 2011 <sup>(1, 2 and 3)</sup> | 2010 <sup>(1 and 2)</sup> |
|--|---------------------|------------------------------|---------------------------|
|  |                     | (in million pesos)           |                           |
| Core income from continuing operations   | 36,356              | 37,827                       | 41,056                    |
| Core income from discontinued operations                                       | 551                 | 789                          | 538                       |
| Consolidated core income   | 36,907              | 38,616                       | 41,594                    |
| Add (deduct) adjustments to continuing operations:                             |                     |                              |                           |
| Foreign exchange gains (losses) – net (Notes 2, 9 and 27)                      | 3,282               | (741)                        | 1,862                     |
| Retroactive effect of adoption of Revised PAS 19 (Note 2)                      | 1,287               | _                            | _                         |
| Net income (loss) attributable to noncontrolling interests                     | (49)                | (60)                         | 42                        |
| Core income adjustment on equity share in net losses of associates and joint   |                     | . ,                          |                           |
| ventures   | (91)                | (476)                        | (699)                     |
| Net tax effect of aforementioned adjustments                                   | (644)               | 1,608                        | (166)                     |
| Gains (losses) on derivative financial instruments - net, excluding hedge cost |                     |                              |                           |
| (Notes 2 and 27)   | (1,689)             | 564                          | (1,307)                   |
| Asset impairment (Notes 3, 5 and 9)  | (2,896)             | (8,514)                      | (474)                     |
| Others   | -                   | 143                          | -                         |
| Total adjustments  | (800)               | (7,476)                      | (742)                     |
| Adjustments to discontinued operations   | (8)                 | 78                           | (1,027)                   |
| Net income from continuing operations  | 35,556              | 30.351                       | 40,314                    |
| Net income (loss) from discontinued operations (Notes 2 and 8)                 | 543                 | 867                          | (489)                     |
| Consolidated net income  | 36,099              | 31,218                       | 39,825                    |

<sup>(1)</sup> As adjusted to reflect the adjustments on the application of PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

Disclosures for further discussion.
 As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations in the classification of the BPO segment as an asset held-for-sale for further discussion.
 Includes the Digitel Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the years ended December 31, 2012, 2011 and 2010:

|   | 2012(1) |         | 2011 <sup>(1, 2 and 3)</sup> |         | 2010 <sup>(1 and 2)</sup> |         |
|---|---------|---------|------------------------------|---------|---------------------------|---------|
|   | Basic   | Diluted | Basic                        | Diluted | Basic                     | Diluteo |
| Core EPS from continuing operations                       | 168.03  | 168.03  | 195.27                       | 195.10  | 217.35                    | 217.35  |
| Core EPS from discontinued operations                     | 2.55    | 2.55    | 4.12                         | 4.12    | 2.88                      | 2.88    |
| Consolidated core EPS                                     | 170.58  | 170.58  | 199.39                       | 199.22  | 220.23                    | 220.23  |
| Add (deduct) adjustments to continuing operations:        |         |         |                              |         |                           |         |
| Foreign exchange gains (losses) - net (Notes 2, 9 and 27) | 10.63   | 10.63   | (2.68)                       | (2.67)  | 6.86                      | 6.8     |
| Retroactive effect of adoption of Revised PAS 19 (Note 2) | 5.18    | 5.18    | -                            | _       | -                         |         |
| Core income adjustment on equity share in net losses of   |         |         |                              |         |                           |         |
| associates and joint ventures                             | (0.42)  | (0.42)  | (2.48)                       | (2.48)  | (3.74)                    | (3.7    |
| Gains (losses) on derivative financial instruments - net, |         |         |                              |         |                           |         |
| excluding hedge cost (Notes 2 and 27)                     | (5.47)  | (5.47)  | 2.06                         | 2.06    | (4.90)                    | (4.9    |
| Asset impairment (Notes 3, 5 and 9)                       | (13.40) | (13.40) | (36.47)                      | (36.44) | (2.42)                    | (2.4    |
| Gain on disposal of investment and others                 | _       | _       | 0.82                         | 0.82    | -                         |         |
| Total adjustments   | (3.48)  | (3.48)  | (38.75)                      | (38.71) | (4.20)                    | (4.2    |
| Adjustments to discontinued operations                    | (0.03)  | (0.03)  | 0.41                         | 0.40    | (5.50)                    | (5.5    |
|   |         |         |                              |         |                           |         |
| EPS from continuing operations attributable to common     |         |         |                              |         |                           |         |
| equity holders of PLDT (Note 8)                           | 164.55  | 164.55  | 156.52                       | 156.39  | 213.15                    | 213.1   |
| EPS from discontinued operations attributable to common   |         |         |                              |         |                           |         |
| equity holders of PLDT (Notes 2 and 8)                    | 2.52    | 2.52    | 4.53                         | 4.52    | (2.62)                    | (2.6    |
| Consolidated EPS attributable to common equity holders of |         |         |                              |         |                           |         |
| PLDT (Note 8)   | 167.07  | 167.07  | 161.05                       | 160.91  | 210.53                    | 210.5   |

As adjusted to reflect the adjustments on the application of PAS 19. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.
 As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

<sup>(a)</sup> As adjusted to reflect the discontinued operations of the BPO segment. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures and Note 3 – Management's use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations in the classification of the BPO segment as an asset held-for-sale for further discussion.

<sup>(3)</sup> Includes the Digitel Group's EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table presents our revenues from external customers by category of products and services for the years ended December 31, 2012, 2011 and 2010:

|   | 2012                   | 2011               | 2010    |  |
|---|------------------------|--------------------|---------|--|
|   | (As Adjusted – Note 2) |                    |         |  |
|   |                        | (in million pesos) |         |  |
| Wireless services   |                        |                    |         |  |
| Service revenues:   |                        |                    |         |  |
| Cellular  | 102,569                | 92,150             | 93,325  |  |
| Broadband, satellite and others   | 9,968                  | 8,424              | 8,504   |  |
|   | 112,537                | 100,574            | 101,829 |  |
| Non-service revenues:   |                        |                    |         |  |
| Sale of cellular handsets, cellular SIM-packs and broadband data modems | 2,153                  | 1,469              | 1,357   |  |
| Total wireless revenues   | 114,690                | 102,043            | 103,186 |  |
|   |                        |                    |         |  |
| Fixed line services   |                        |                    |         |  |
| Service revenues:   | 16,357                 | 15.010             | 45 700  |  |
| Local exchange  | 6.930                  | 15,616             | 15,739  |  |
| International long distance   | .,                     | 7,092              | 8,538   |  |
| National long distance<br>Data and other network                        | 4,678                  | 5,218              | 6,471   |  |
|   | 18,975<br>712          | 16,426             | 14,290  |  |
| Miscellaneous   | =                      | 908                | 1,730   |  |
| Non-service revenues:   | 47,652                 | 45,260             | 46,768  |  |
|   | 551                    | 658                | 0.40    |  |
| Sale of computers   | 591                    | 518                | 342     |  |
| Point-product-sales   |                        |                    | 518     |  |
| Total fixed line revenues   | 48,794                 | 46,436             | 47,628  |  |
| Total revenues from continuing operations                               | 163,484                | 148,479            | 150,814 |  |
| PPO convision Discontinued energiana                                    |                        |                    |         |  |
| BPO services – Discontinued operations<br>Service revenues:             |                        |                    |         |  |
|   | 6.594                  | E 701              | E 000   |  |
| Knowledge processing solutions  | .,                     | 5,721              | 5,289   |  |
| Customer relationship management  | 2,548                  | 2,403              | 2,284   |  |
| Total revenues from discontinued operations (Note 2)                    | 9,142                  | 8,124              | 7,573   |  |

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

In each of the years ended December 31, 2012, 2011 and 2010, no revenue transactions with a single external customer had accounted for 10% or more of our consolidated revenues from external customers.

## 5. Income and Expenses

Non-service Revenues

Non-service revenues for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|   | 2012  | 2011               | 2010  |
|---|-------|--------------------|-------|
|   |       | (in million pesos) |       |
| Sale of computers, cellular handsets, cellular SIM-packs and broadband data |       |                    |       |
| modems  | 2,704 | 2,127              | 1,699 |
| Point-product-sales   | 591   | 518                | 518   |
| (Note 4)  | 3,295 | 2,645              | 2,217 |

### Compensation and Employee Benefits

Compensation and employee benefits for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|  | 2012   | 2011                | 2010   |
|--|--------|---------------------|--------|
|  |        | (As Adjusted - Note | 2)     |
|  |        | (in million pesos)  |        |
| Salaries and other employee benefits   | 17,462 | 14,718              | 15,485 |
| Manpower rightsizing program, or MRP   | 2,521  | 132                 | 2,107  |
| Incentive plans (Notes 3 and 25)       | 1,491  | -                   | 1,370  |
| Pension benefit costs (Notes 3 and 25) | 525    | 561                 | 797    |
|  | 21,999 | 15,411              | 19,759 |

Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The total MRP cost charged to operations amounted to Php2,521 million, Php132 million and Php2,107 million for the years ended December 31, 2012, 2011 and 2010, respectively. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

# Cost of Sales

Cost of sales for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|   | 2012               | 2011  | 2010  |  |
|---|--------------------|-------|-------|--|
|   | (in million pesos) |       |       |  |
| Cost of computers, cellular handsets, cellular SIM-packs sold and broadband |                    |       |       |  |
| data modems   | 8,074              | 4,851 | 4,061 |  |
| Cost of point-product-sales   | 593                | 487   | 588   |  |
| Cost of satellite air time and terminal units (Note 24)                     | 80                 | 105   | 122   |  |
|   | 8.747              | 5 443 | 4 771 |  |

#### Asset Impairment

Asset impairment for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|   | 2012  | 2011               | 2010  |
|---|-------|--------------------|-------|
|   |       | (in million pesos) |       |
| Property, plant and equipment (Notes 3 and 9)                 | 2,881 | 8,470              | 116   |
| Trade and other receivables (Notes 3 and 16)                  | 2,175 | 1,543              | 834   |
| Inventories and supplies (Notes 3 and 17)                     | 215   | 143                | 108   |
| Investments in associates and joint ventures (Notes 3 and 10) | -     | 44                 | 78    |
| Goodwill and intangible assets (Notes 3 and 14)               | -     | -                  | 282   |
| Prepayment and others (Note 3)                                | 15    | -                  | 2     |
|   | 5,286 | 10,200             | 1,420 |

## Interest Income

Interest income for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|  | 2012               | 2011  | 2010  |  |
|--|--------------------|-------|-------|--|
|  | (in million pesos) |       |       |  |
| Interest income on other loans and receivables | 1,310              | 1,321 | 1,113 |  |
| Interest income on HTM investments (Note 11)   | 31                 | 31    | 30    |  |
| Interest income on FVPL                        | 13                 | 5     | 37    |  |
| (Note 4)                                       | 1,354              | 1,357 | 1,180 |  |

### Financing Costs - net

Financing costs - net for the years ended December 31, 2012, 2011 and 2010 consists of the following:

|   | 2012  | 2011               | 2010  |
|---|-------|--------------------|-------|
|   |       | (in million pesos) |       |
| Interest on loans and other related items (Notes 20 and 27) | 6,319 | 5,948              | 6,177 |
| Accretion on financial liabilities (Notes 20 and 27)        | 1,053 | 1,037              | 1,013 |
| Financing charges   | 418   | 117                | 50    |
| Capitalized interest (Note 9)                               | (914) | (648)              | (710  |
| (Note 4)  | 6,876 | 6,454              | 6,530 |

#### 6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the years ended December 31, 2012, 2011 and 2010 are as follows:

|  | Foreign<br>currency<br>translation<br>differences of<br>subsidiaries | Net gains on<br>available-for-sale<br>financial<br>investments<br>– net of tax | Net<br>transactions on<br>cash flow hedges<br>– net of tax | Revaluation<br>increment on<br>investment<br>properties<br>– net of tax | Actuarial gains<br>(losses) on<br>defined<br>benefit<br>obligations – net<br>of tax | Total other<br>comprehensive<br>income (loss)<br>attributable to<br>equity holders<br>of PLDT | Share of<br>noncontrolling<br>interests | Total other<br>comprehensive<br>income (loss)<br>– net of tax |
|--|--|--|--|---|---|---|---|---|
| Balances as at January 1, 2012<br>Other comprehensive income (loss)<br>Revaluation increment removed<br>from other comprehensive | (1,024)<br>(795)   | 52<br>23   | 14<br>92   | (in millio<br>314<br>31   | n pesos)<br>2,099<br>(6,231)  | 1,455<br>(6,880)  | 8<br>(2)                                | 1,463<br>(6,882)  |
| income taken to retained earings<br>Discontinued operations (Note 2)   | _<br>2,250   | -  | _<br>(62)  | (105)   | _<br>(45)   | (105)<br>2,143  | -                                       | (105)<br>2,143  |
| Balances as at December 31, 2012<br>(As Adjusted – Note 2)   | 431  | 75   | 44   | 240   | (4,177)   | (3,387)   | 6                                       | (3,381)   |
| Balances as at January 1, 2011<br>Other comprehensive income   | (1,639)<br>615   | 49<br>3  | _<br>14  | 314   | 2,099   | (1,276)<br>2,731  | (1)<br>9                                | (1,277)<br>2,740  |
| Balances as at December 31, 2011<br>(As Adjusted – Note 2)   | (1,024)  | 52   | 14   | 314   | 2,099   | 1,455   | 8                                       | 1,463   |
|  |  |  |  |   |   |   |   |   |
| Balances as at January 1, 2010<br>Other comprehensive income (loss)  | (1,044)<br>(595)   | 27<br>22   | -  | _<br>314  | -   | (1,017)<br>(259)  | 165<br>(166)                            | (852)<br>(425)  |
| Balances as at December 31, 2010<br>(As Adjusted – Note 2)   | (1,639)  | 49   | -  | 314   | -   | (1,276)   | (1)                                     | (1,277)   |

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment transferred to investment property at the time of change in classification.

## 7. Income Taxes

### Corporate Income Tax

The major components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|   | Decen                  | 1ber 31, | January 1 |  |
|---|------------------------|----------|-----------|--|
|   | 2012                   | 2011     | 2011      |  |
|   | (As Adjusted – Note 2) |          |           |  |
|   | (in million pesos)     |          |           |  |
| Net deferred income tax assets (Notes 3 and 4)      | 7,225                  | 5,117    | 5,977     |  |
| Net deferred income tax liabilities (Notes 3 and 4) | (5,713)                | (7,078)  | (1,099)   |  |

The components of our consolidated net deferred income tax assets and liabilities as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | Decer   | mber 31,            | January 1 |
|--|---------|---------------------|-----------|
|  | 2012    | 2011                | 2011      |
|  |         | (As Adjusted – Note | 2)        |
|  |         | (in million pesos)  |           |
| Net deferred income tax assets:  |         |                     |           |
| Accumulated provision for doubtful accounts                                  | 2,379   | 2,466               | 2,488     |
| Unearned revenues  | 2,305   | 2,726               | 2,586     |
| Unamortized past service pension costs                                       | 2,244   | 2,124               | 2,548     |
| Unrealized foreign exchange losses   | 970     | 111                 | 924       |
| Derivative financial instruments   | 922     | 768                 | 1,028     |
| Provision for other assets   | 367     | 441                 | 379       |
| NOLCO  | 145     | 326                 | 119       |
| Accumulated write-down of inventories to net realizable values               | 135     | 198                 | 289       |
| MCIT   | 33      | 9                   | 446       |
| Fixed asset impairment   | 24      | 1.469               | 27        |
| Capitalized taxes and duties - net of amortization                           | (65)    | (125)               | (186)     |
| Capitalized foreign exchange differential – net of depreciation              | (100)   | (231)               | (363)     |
| Pension and other employee benefits  | (369)   | (2,511)             | (1,494)   |
| Undepreciated capitalized interest charges                                   | (1,964) | (2,624)             | (2,685)   |
| Others   | 199     | (30)                | (129)     |
| Total deferred income tax assets   | 7,225   | 5,117               | 5,977     |
|  |         |                     |           |
| Net deferred income tax liabilities:   |         |                     |           |
| Intangible assets – net of amortization                                      | 3,607   | 3,725               | 423       |
| Unrealized foreign exchange gains  | 2,049   | 1,756               | 707       |
| Unamortized fair value adjustment on fixed assets from business combinations | 687     | 997                 | 303       |
| Undepreciated capitalized interest charges                                   | 82      | 582                 | 304       |
| Debt issuance costs  | (3)     | -                   | -         |
| Fixed asset impairment   | (28)    | -                   | -         |
| Unearned revenues  | -       | -                   | (668)     |
| Pension and other employee benefits  | -       | -                   | (35)      |
| Others   | (681)   | 18                  | 65        |
| Total deferred income tax liabilities  | 5,713   | 7,078               | 1,099     |

Changes in our consolidated net deferred income tax assets (liabilities) as at December 31, 2012 and 2011 are as follows:

|  | 2012               | 2011         |
|--|--------------------|--------------|
|  | (As Adjuste        | ed – Note 2) |
|  | (in million pesos) |              |
| Net deferred income tax assets - balance at beginning of the year (Notes 3 and 4)      | 5,117              | 5,977        |
| Net deferred income tax liabilities - balance at beginning of the year (Notes 3 and 4) | (7,078)            | (1,099)      |
| Net balance at beginning of the year   | (1,961)            | 4,878        |
| Movement charged directly to other comprehensive income                                | 2,682              | (912)        |
| Provision for deferred income tax (Note 3)   | 947                | 1,448        |
| Discontinued operations (Note 2)   | (65)               | -            |
| Excess MCIT deducted against RCIT due  | _                  | (446)        |
| Business combinations (Note 13)  | -                  | (6,956)      |
| Others   | (91)               | 27           |
| Net balance at end of the year   | 1,512              | (1,961)      |
| Net deferred income tax assets – balance at end of the year (Notes 3 and 4)            | 7,225              | 5,117        |
| Net deferred income tax liabilities - balance at end of the year (Notes 3 and 4)       | (5,713)            | (7,078)      |

The analysis of our consolidated net deferred income tax assets as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | December 31, |                     | January 1   |
|--|--------------|---------------------|---|
|  | 2012         | 2011                | 2011  |
|  |              | (As Adjusted – Note | 2)  |
|  |              | (in million pesos)  |   |
| Deferred income tax assets:                                    |              |                     |   |
| Deferred income tax assets to be recovered after 12 months     | 7,135        | 8,505               | 8,789   |
| Deferred income tax assets to be recovered within 12 months    | 2,820        | 2,541               | 2,222   |
|  | 9,955        | 11,046              | 2)<br>8,789<br>2,222<br>11,011<br>(4,373)<br>(661)<br>(5,034) |
| Deferred income tax liabilities:                               |              |                     |   |
| Deferred income tax liabilities to be settled after 12 months  | (2,040)      | (5,159)             | (4,373)   |
| Deferred income tax liabilities to be settled within 12 months | (690)        | (770)               | (661)   |
|  | (2,730)      | (5,929)             | (5,034)   |
| Net deferred income tax assets (Notes 3 and 4)                 | 7,225        | 5,117               | 5,977   |

The analysis of our consolidated net deferred income tax liabilities as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | Decem   | ber 31,            | January <sup>-</sup>   |
|--|---------|--------------------|--|
|  | 2012    | 2011               | 2011   |
|  | (       | As Adjusted – Note | 2)   |
|  |         | (in million pesos) |  |
| Deferred income tax assets:                                    |         |                    |  |
| Deferred income tax assets to be recovered after 12 months     | 835     | -                  | 690  |
| Deferred income tax assets to be recovered within 12 months    | 263     | 274                | 72   |
|  | 1,098   | 274                | 2011<br>)<br>690<br>72<br>762<br>(1,746)<br>(115)<br>(1,861) |
| Deferred income tax liabilities:                               |         |                    |  |
| Deferred income tax liabilities to be settled after 12 months  | (6,173) | (6,982)            | (1,746)  |
| Deferred income tax liabilities to be settled within 12 months | (638)   | (370)              | (115)  |
|  | (6,811) | (7,352)            | (1,861)  |
| Net deferred income tax liabilities (Notes 3 and 4)            | (5,713) | (7,078)            | (1,099)  |

Provision for (benefit from) corporate income tax from continuing operations for the years ended December 31, 2012, 2011 and 2010 consists of:

|                   | 2012  | 2011                  | 2010   |  |
|-------------------|-------|-----------------------|--------|--|
|                   |       | (As Adjusted – Note 2 | 2)     |  |
|                   |       | (in million pesos)    |        |  |
| Current           | 8,969 | 11,908                | 12,149 |  |
| Deferred (Note 3) | (919) | (1,174)               | 1,160  |  |
|                   | 8,050 | 10,734                | 13,309 |  |

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012    | 2011                | 2010  |
|---|---------|---------------------|---|
|   |         | (As Adjusted – Note | 2)  |
|   |         | (in million pesos)  |   |
| Provision for (benefit from) income tax at the applicable statutory tax rate: |         |                     |   |
| Continuing operations   | 13,082  | 12,325              | 16,087  |
| Discontinued operations (Note 2)  | 291     | 295                 | (166)   |
|   | 13,373  | 12,620              | 15,921  |
| Tax effects of:   |         |                     |   |
| Nondeductible expenses  | 1,372   | 520                 | 442   |
| Equity share in net earnings of associates and joint ventures                 | (461)   | (610)               | (423)   |
| Losses (income) subject to lower tax rate                                     | (834)   | 412                 | 453   |
| Income subject to final tax   | (933)   | (408)               | (404)   |
| Income not subject to income tax  | (1,853) | (1,090)             | (324)   |
| Difference between OSD and itemized deductions                                | _       | (1,578)             | (1,759)   |
| Net movement in unrecognized deferred income tax assets and other adjustments | (2,186) | 986                 | (661)   |
| •   | (4,895) | (1,768)             | (2,676)   |
| Actual provision for (benefit from) corporate income tax:                     |         |                     |   |
| Continuing operations   | 8,050   | 10.734              | 13.309  |
| Discontinued operations (Note 2)  | 428     | 118                 | 2)<br>16,087<br>(166)<br>15,921<br>442<br>(423)<br>453<br>(404)<br>(324)<br>(1,759) |
|   | 8,478   | 10,852              | 13.245  |

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. Under the OSD method of computing taxable income, corporations may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

Certain deferred income tax assets and liabilities of Smart and SBI, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php3,655 million, Php4,240 million and Php2,803 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Recognition of Deferred Income Tax Assets and Liabilities.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | Dece   | mber 31,           | January 1 |
|--|--------|--------------------|-----------|
|  | 2012   | 2011               | 2011      |
|  |        | (in million pesos) |           |
| Fixed asset impairment   | 23,881 | 29,029             | 112       |
| NOLCO  | 8,741  | 11,372             | 2,292     |
| Provisions for other assets                                    | 8,303  | 6,532              | 170       |
| Unearned revenues  | 5,023  | 893                | 712       |
| Accumulated provision for doubtful accounts                    | 3,177  | 4,113              | 1,257     |
| Asset retirement obligation                                    | 902    | 627                | -         |
| Accumulated write-down of inventories to net realizable values | 167    | 270                | 155       |
| Pension and other employee benefits                            | 155    | 127                | 60        |
| MCIT   | 133    | 133                | 36        |
| Derivative financial instruments                               | 132    | 155                | 11        |
| Unrealized foreign exchange losses                             | 28     | 22                 | 29        |
| Operating lease and others                                     | 217    | 76                 | 6         |
|  | 50,859 | 53,349             | 4,840     |
| Unrecognized deferred income tax assets (Note 3)               | 15,351 | 16,098             | 1,477     |

As at December 31, 2012, Digitel Group's deferred income tax assets were not recognized because management believes that there is no sufficient future taxable income that will be available upon which these can be utilized. Digitel Group's unrecognized deferred income tax assets amounted to Php15,098 million and Php14,766 million as at December 31, 2012 and 2011, respectively.

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2012 are as follows:

| Date Incurred  | Expiry Date       | MCIT               | NOLCO   |
|--|-------------------|--------------------|---------|
|  |                   | (in million pesos) |         |
| December 31, 2010                                    | December 31, 2013 | 24                 | 257     |
| December 31, 2011                                    | December 31, 2014 | 75                 | 7,646   |
| December 31, 2012                                    | December 31, 2015 | 67                 | 1,898   |
|  |                   | 166                | 9,801   |
| Consolidated tax benefits                            |                   | 166                | 2,940   |
| Consolidated unrecognized deferred income tax assets |                   | (133)              | (2,623) |
| Discontinued operations (Note 2)                     |                   | _                  | (172)   |
| Consolidated recognized deferred income tax assets   |                   | 33                 | 145     |

The excess MCIT totaling Php166 million as at December 31, 2012 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php37 million, Php446 million and Php156 million for the years ended December 31, 2012, 2011 and 2010, respectively. The amount of expired portion of excess MCIT amounted to Php8 million, Php16 million and Php5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

NOLCO totaling Php9,801 million as at December 31, 2012 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php3,989 million, Php827 million and Php445 million for the years ended December 31, 2012, 2011 and 2010, respectively. The amount of expired portion of excess NOLCO amounted to Php425 million, Php330 million and Php95 million for the years ended December 31, 2012, 2011 and 2010, respectively.

There are no income tax consequences attached to the payment of dividends in 2012, 2011 and 2010 by the PLDT Group to its shareholders.

## Registration with Subic Bay Freeport and Clark Special Economic Zone

SubicTel is registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

### Registration with Philippine Economic Zone Authorities, or PEZA

SeMI was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SeMI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009. SeMI availed Php1 million tax incentive in December 2011. However, SeMI is in a net loss position in December 2012, hence, no tax incentives were availed from the registration with the Economic Zone and Board of Investments, or BOI.

### Registration with BOI

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php190 million, Php1,136 million and Php686 million for the years ended December 31, 2012, 2011 and 2010, respectively.

## 8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the years ended December 31, 2012, 2011 and 2010:

|   | 201       | 2         | 20              | 11            | 20        | 10        |
|---|-----------|-----------|-----------------|---------------|-----------|-----------|
| _   |           |           | (As Adjuste     | d – Note 2)   |           |           |
| —   | Basic     | Diluted   | Basic           | Diluted       | Basic     | Diluted   |
|   |           |           | (in millio      | n pesos)      |           |           |
| Net income attributable to equity holders of PLDT from:           |           |           |                 |               |           |           |
| Continuing operations   | 35,605    | 35,605    | 30,411          | 30,411        | 40,272    | 40,272    |
| Discontinued operations (Notes 2 and 4)                           | 543       | 543       | 867             | 867           | (489)     | (489      |
| Consolidated net income attributable to common shares (Note 4)    | 36,148    | 36,148    | 31,278          | 31,278        | 39,783    | 39,783    |
| Dividends on preferred shares (Note 19)                           | (52)      | (52)      | (458)           | (458)         | (458)     | (458)     |
| Consolidated net income attributable to common equity             |           |           |                 |               |           |           |
| holders of PLDT   | 36,096    | 36,096    | 30,820          | 30,820        | 39,325    | 39,325    |
|   |           |           |                 |               |           |           |
|   |           | (in thous | sands, except p | per share amo | unts)     |           |
| Outstanding common shares at beginning of the year                | 214,436   | 214,436   | 186,756         | 186,756       | 186,797   | 186,797   |
| Effect of issuance of common shares during the year (Note 19)     | 1,619     | 1,619     | 4,613           | 4,613         | -         | · -       |
| Effect of mandatory tender offer for all remaining Digitel shares | -         |           | _               | 164           | -         | -         |
| Effect of purchase of treasury stock during the year (Note 19)    | -         | -         | -               | -             | (7)       | (7        |
| Weighted average number of common shares                          | 216,055   | 216,055   | 191,369         | 191,533       | 186,790   | 186,790   |
|   |           |           |                 |               |           |           |
| EPS from continuing operations                                    | 164.55    | 164.55    | 156.52          | 156.39        | 213.15    | 213.15    |
| EPS from discontinued operations (Notes 2 and 4)                  | 2.52      | 2.52      | 4.53            | 4.52          | (2.62)    | (2.62     |
| EPS attributable to common equity holders of PLDT (Note 4)        | Php167.07 | Php167.07 | Php161.05       | Php160.91     | Php210.53 | Php210.53 |

Basic EPS amounts are calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the year exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digitel shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

## 9. Property, Plant and Equipment

Changes in property, plant and equipment account for the years ended December 31, 2012 and 2011 are as follows:

|  | Cable and<br>wire<br>facilities  | Central<br>office<br>equipment  | Cellular<br>facilities   | Buildings<br>and<br>improvements  | Vehicles,<br>furniture<br>and other<br>network<br>equipment                       | Communications satellite | Information<br>origination<br>and<br>termination<br>equipment | Land and<br>land<br>improvements                             | Property<br>under<br>construction                                       | Total  |
|--|--|---|--|---|---|--------------------------|---|--|---|--|
| As at January 1, 2011  |  |   |  |   |   | (in million pesos)       |   |  |   |  |
| Cost   | 132,356  | 89,992  | 90,574   | 21,873  | 38,078  | 966                      | 9,136   | 2,405  | 31,010  | 416,390  |
| Accumulated depreciation,<br>impairment and amortization   | (75,711)   | (70,064)  | (56,619)   | (10,656)  | (30,922)  | (966)                    | (7,990)   | (278)  | _   | (253,206)  |
| Net book value (Note 3)  | 56,645   | 19,928  | 33,955   | 11,217  | 7,156   | _                        | 1,146   | 2,127  | 31,010  | 163,184  |
| Year Ended December 31, 2011<br>(As Adjusted – Note 13)<br>Net book value at beginning of the<br>year  | 56,645   | 19.928  | 33,955   | 11,217  | 7,156   | _                        | 1,146   | 2,127  | 31,010  | 163,184  |
| Additions  | 1,585  | 414   | 3,209  | 332   | 1,902   | -                        | 315   | 10   | 23,469  | 31,236   |
| Disposals/Retirements<br>Translation differences charged<br>directly to cumulative   | (32)   | (77)  | (11)   | (20)  | (183)   | -                        | -   | (145)  | (2)   | (470)  |
| translation adjustments<br>Acquisition through business  | 1  | -   | -  | -   | 4   | -                        | -   | -  | -   | 5  |
| combinations (Note 13)<br>Impairment losses recognized   | 6,799  | 1,168   | 29,062   | 1,882   | 932   | -                        | 116   | 476  | 1,806   | 42,241   |
| during the year (Note 5)<br>Reclassifications (Notes 12 and 17)  | (5)<br>27  | (4)<br>(103)  | (8,457)  | (2)<br>167  | 30  | -                        | (2)   | 269  | _<br>(17)   | (8,470)<br>373   |
| Transfers  | 3,774  | 2,861   | 3,422  | 386   | 1,303   | -                        | 159   | - 209  | (11,905)  | -  |
| Depreciation and amortization<br>(Notes 2, 3 and 4)  | (9,311)  | (3,602)   | (9,862)  | (1,379)   | (3,294)   | _                        | (508)   | (1)  | -   | (27,957)   |
| Net book value at end of the year<br>(Note 3)  | 59,483   | 20,585  | 51,318   | 12,583  | 7,850   | -                        | 1,226   | 2,736  | 44,361  | 200,142  |
| As at December 31, 2011<br>(As Adjusted – Note 13)<br>Cost<br>Accumulated depreciation,  | 146,430  | 92,953  | 119,791  | 24,299  | 40,731  | 966                      | 9,102   | 3,014  | 44,361  | 481,647  |
| impairment and amortization<br>Net book value (Note 3)   | (86,947)<br>59,483   | (72,368)<br>20,585  | (68,473)<br>51,318   | (11,716)<br>12,583  | (32,881)<br>7,850   | (966)                    | (7,876)   | (278)<br>2,736   | 44,361  | (281,505)<br>200,142   |
| Year Ended December 31, 2012<br>Net book value at beginning of the<br>year (Note 3)<br>Additions<br>Disposals/Retirements<br>Translation adjustments<br>Acquisition through business<br>combinations (Note 13)<br>Impairment losses recognized<br>during the year (Note 5)<br>Reclassifications<br>(Notes 12 and 17)<br>Transfers and others<br>Depreciation of revaluation<br>increment on investment<br>property, plant and equipment<br>charged to other<br>comprehensive income<br>Depreciation and amortization<br>(Notes 2, 3 and 4)<br>Discontinued operations (Note 2) | 59,483<br>2,750<br>(10)<br>(2)<br>112<br>(5)<br>1,543<br>8,000<br><br>(11,380) | 20,585<br>415<br>(5)<br>104<br>-<br>(321)<br>4,045<br>-<br>(4,130)<br>(155) | 51,318<br>8,879<br>(26)<br>(2,876)<br>(3,452)<br>4,227<br>-<br>(9,678) | 12,583<br>562<br>(4)<br>(15)<br>45<br>-<br>131<br>449<br>(2)<br>(2)<br>(1,493)<br>(340) | 7,850<br>2,549<br>(74)<br>(49)<br>6<br>-<br>2,438<br>990<br>-<br>(5,606)<br>(694) | -                        | 1,226<br>387<br>-<br>-<br>(65)<br>47<br>-<br>(532)<br>-       | 2,736<br>2<br>(7)<br>-<br>-<br>401<br>-<br>-<br>(1)<br>(165) | 44,361<br>21,144<br>-<br>(7)<br>-<br>(253)<br>(17,758)<br>-<br>(17,758) | 200,142<br>36,688<br>(126)<br>(83)<br>267<br>(2,881)<br>422<br>-<br>(2)<br>(32,820)<br>(1,529) |
| Net book value at end of the year<br>(Note 3)  | 60,491   | 20,528  | 48,392   | 11,916  | 7,410   |                          | 1,063   | 2,966  | 47,312  | 200,078  |
| (11018-0)  | 00,491   | 20,020  | 40,092   | 11,910  | 7,410   | _                        | 1,003   | 2,900  | 41,012  | 200,070  |
| As at December 31, 2012<br>Cost<br>Accumulated depreciation,   | 157,036  | 95,258  | 100,935  | 24,333  | 42,628  | 966                      | 9,341   | 3,224  | 47,312  | 481,033  |
| impairment and amortization  | (96,545)   | (74,730)  | (52,543)   | (12,417)  | (35,218)  | (966)                    | (8,278)   | (258)  | -   | (280,955)  |
| Net book value (Note 3)  | 60,491   | 20,528  | 48,392   | 11,916  | 7,410   | -                        | 1,063   | 2,966  | 47,312  | 200,078  |

Substantially all of our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, which are principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.* 

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php914 million, Php648 million and Php710 million for the years ended December 31, 2012, 2011 and 2010, respectively. See *Note* 5 – *Income and Expenses* – *Financing Costs*. Our undepreciated interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php7,686 million, Php10,357 million and Php10,174 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The average interest capitalization rates used were approximately 5%, 4% and 7% for the years ended December 31, 2012, 2011 and 2010, respectively.

Our undepreciated capitalized net foreign exchange losses, which qualified as borrowing costs amounted to Php353 million, Php837 million and Php1,325 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the years ended December 31, 2012, 2011 and 2010.

The useful lives of our property, plant and equipment are estimated as follows:

| Cable and wire facilities                         | 10 – 15 years |
|---|---------------|
| Central office equipment                          | 3 – 15 years  |
| Cellular facilities                               | 3 – 10 years  |
| Buildings   | 25 years      |
| Vehicles, furniture and other network equipment   | 3 – 5 years   |
| Information origination and termination equipment | 3 – 5 years   |
| Leasehold improvements                            | 3 – 5 years   |
| Land improvements                                 | 10 years      |

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases, which amounted to Php22 million, Php6 million and Php4 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases.

## Impairment of Certain Network Equipment and Facilities of DMPI

In December 2012, DMPI recognized an impairment loss of Php2,881 million pertaining to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart. See *Note 5 – Income and Expenses – Asset Impairment*.

The modernization program provided a window to fully align and harmonize Smart and DMPI's mobile networks. While the alignment is expected to generate savings from synergies in terms of capital expenditures optimization or avoidance and cost efficiencies, it will also result in significant changes in the manner of use of DMPI's network assets. Certain equipment and facilities that have been rendered impaired will have to be replaced by newer, higher capacity and more power-efficient units that will align DMPI to Smart's modernized network. DMPI's equipment and network facilities affected by the unified wireless plan were assessed in terms of their age, compatibility, usability and upgradability under the planned synergy. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Asset Impairment.

## Impairment of Certain Network Equipment and Facilities of Smart

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The modernization program is designed to enable the delivery and fulfillment of advanced capabilities to support multimedia services and upcoming technologies in our technology roadmap by substantially expanding capacity, enhancing capabilities and improving quality of experience to meet the increasing demand for cellular, and advanced broadband services in a highly competitive playing field. This program is expected to result to savings in operating expenses, as well as alignment of Smart and Digitel networks. The full impairment provision recognized represents the net book value of these network equipment and facilities. No impairment loss was recognized in 2012. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Asset Impairment and Note 5 – Income and Expenses – Asset Impairment.

## 10. Investments in Associates, Joint Ventures and Deposits

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|  | December 31, |                    | January 1, |  |
|--|--------------|--------------------|------------|--|
|  | 2012         | 2011               | 2011       |  |
|  |              | (in million pesos) |            |  |
| Carrying value of investments in associates:                                   |              |                    |            |  |
| Pacific Global One Aviation Co., Inc., or PG1                                  | 132          | 155                | -          |  |
| Digitel Crossing, Inc., or DCI   | 90           | 92                 | -          |  |
| Meralco  | _            | _                  | 6,733      |  |
| Philweb Corporation, or Philweb  | -            | 1,025              | 878        |  |
| ACeS International Limited, or AIL   | -            | _                  | -          |  |
| Asia Netcom Philippines Corp., or ANPC   | -            | _                  | -          |  |
|  | 222          | 1,272              | 7,611      |  |
| Carrying value of investments in joint ventures:                               |              |                    |            |  |
| Beacon   | 20,801       | 16,593             | 15,438     |  |
| Mobile Payment Solutions Pte. Ltd., or MPS                                     | 54           | -                  | 104        |  |
| ePDS   | -            | -                  | 50         |  |
| PLDT Italy S.r.I., or PLDT Italy   | -            | -                  | -          |  |
|  | 20,855       | 16,593             | 15,592     |  |
| Deposit for future Philippine Depositary Receipts, or PDRs, subscription:      |              |                    |            |  |
| MediaQuest Holdings, Inc., or MediaQuest                                       | 6,000        | -                  | -          |  |
| Total carrying value of investments in associates, joint ventures and deposits | 27,077       | 17,865             | 23,203     |  |

Changes in the cost of investments and deposits for the years ended December 31, 2012 and 2011 are as follows:

|   | 2012       | 2011     |
|---|------------|----------|
|   | (in millio | n pesos) |
| Balance at beginning of the year  | 18,196     | 24,636   |
| Additions during the year   | 2,843      | 155      |
| Assets classified as held-for-sale  | (712)      | -        |
| Business combinations (Note 13)   | _          | (6)      |
| Disposal during the year (including transfer of interests in Meralco to Beacon) | -          | (6,589)  |
| Translation and other adjustments   | (15)       | -        |
| Balance at end of the year  | 20,312     | 18,196   |

Changes in the accumulated impairment losses for the years ended December 31, 2012 and 2011 are as follows:

|                                   | 2012        | 2011   |
|-----------------------------------|-------------|--------|
|                                   | (in millior | pesos) |
| Balance at beginning of the year  | 1,882       | 1,974  |
| Impairment (Note 5)               | -           | 44     |
| Impairment recovery               | -           | (92)   |
| Translation and other adjustments | (5)         | (44)   |
| Balance at end of the year        | 1,877       | 1,882  |

Changes in the accumulated equity share in net earnings of associates and joint ventures for the years ended December 31, 2012 and 2011 are as follows:

|  | 2012        | 2011     |
|--|-------------|----------|
|  | (in millior | n pesos) |
| Balance at beginning of the year   | 1,551       | 541      |
| Equity share in net earnings (losses) of associates and joint ventures (Note 4): | 1,538       | 2,035    |
| Beacon   | 1,508       | 1,267    |
| Philweb*   | 136         | 215      |
| DCI  | (2)         | 92       |
| PG1  | (26)        | -        |
| MPS  | (78)        | (115)    |
| Meralco  | _           | 576      |
| Dividends  | (33)        | (519)    |
| Assets classified as held-for-sale   | (416)       | -        |
| Business combinations (Note 13)  | _           | (11)     |
| Disposals  | -           | (402)    |
| Translation and other adjustments  | 2           | (93)     |
| Balance at end of the year   | 2,642       | 1,551    |

\* Represents share in net earnings of Philweb for the six months ended June 30, 2012.

## Investments in Associates

#### Investment in PG1

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, Metro Pacific Investments Corporation, or MPIC, and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PG1, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed for 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PG1 and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PG1 certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million shall be paid by PG1 to PLDT in cash as soon as reasonably practicable after incorporation.

MPG, Philex, MPTC, MPIC and JSL owns 5%, 15%, 5%, 10% and 15% of PG1, respectively. PLDT has significant influence in PG1, and was accounted for as investment in associate.

PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PG1, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PG1.

#### Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in Asia Netcom Philippines Corporation, or ANPC, and Digitel Crossing, Inc., or DCI, respectively. DCI is involved in the business of cable system linking Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, or JV, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US\$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011, Digitel recorded a reversal of impairment loss amounting to Php92 million following recent improvement in the associates' operations.

Digitel has no control over ANPC despite owning more than half of voting interest because of certain governance matters, and management has assessed that Digitel only has significant influence.

Digitel's investment in DCI does not qualify as investment in JV as there is no provision for joint control in the JV agreement among Digitel, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at the date of issuance of this report, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements.

## Investment of ePLDT in Philweb

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. The market value of ePLDT's investment in Philweb amounted to Php5,093 million, based on quoted share price of Php15.36 as at December 31, 2011.

In May 2006, ePLDT subscribed to newly issued common shares of Philweb for an aggregate amount of Php503 million, representing 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. The remaining Php75 million was paid in July 2012, as discussed below.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share for an aggregate amount of Php209 million.

On September 22, 2009, PSE approved the change in par value of Philweb shares from Php0.01 to Php1.00. Thus, the total number of shares subscribed by ePLDT was reduced to 332 million shares from 33,157 million shares.

On April 19, 2012, Philweb approved the 20% stock dividend declaration payable on May 30, 2012 to stockholders of record as at May 4, 2012, thereby increasing ePLDT's shares to 398 million shares.

On June 30, 2012, as a result of the committed plan of ePLDT to sell its interest over Philweb following a strategic review of the PLDT Group's business, the investment in Philweb was reclassified as assets held-for-sale in accordance with *PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations*. Consequently, the assets held-for-sale was carried at the carrying value of the investment in Philweb, which is lower than the fair value less costs to sell of the Philweb shares.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations.* Philweb shall have the unilateral option to accelerate the acquisition of the portion of the subject shares corresponding to the second to fourth tranches upon prior written notice of five days to ePLDT. The rights (including the rights to receive dividend) to the first to fourth tranches of the subject shares shall belong to Philweb after the closing of the sale of each tranche. The first tranche, which was transacted on July 13, 2012, was for 93.5 million common shares for a purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million.

On October 17, 2012, a Supplement to the Share Purchase Agreement was entered into wherein Philweb designated its wholly-owned subsidiary, Philweb Casino Corporation, or PCC, to act as the buyer of the second to fourth tranches and to make the second to fourth payments.

Subsequently, on October 18, 2012, a Second Supplement to the Share Purchase Agreement was agreed upon between Philweb, ePLDT and PCC, wherein PCC, as the designee of Philweb notified ePLDT of its desire to exercise its option to accelerate the acquisition of the portion of the Philweb shares corresponding to the second tranche from December 12, 2012 to October 18, 2012, or one day after the PSE approves the special block sale, whichever is later. The acquisition of the second tranche, which was for 93.5 million common shares for a purchase price of Php1 billion, was completed on October 22, 2012.

The third tranche was paid on June 13, 2013 for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion. The fourth tranche will be paid on December 13, 2013 for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments – ePLDT Group.

The remaining balance of assets held-for-sale amounted to Php638 million as at December 31, 2012.

#### Investment of ACeS Philippines in AIL

As at December 31, 2012, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AlL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AlL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AlL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AlL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AlL in 2003.

Unrecognized share in net income of AlL amounted to Php3 million and Php57 million for the years ended December 31, 2012 and 2011, respectively, while unrecognized share in losses of AlL amounted to Php35 million for the year ended December 31, 2010. Share in net cumulative losses amounting to Php2,005 million, Php2,035 million and Php2,102 million as at December 31, 2012 and 2011, and January 1, 2011, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AlL.

See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AlL Related Agreements and Note 27 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations for further details as to the contractual relationships with respect to AlL.

## Summarized Financial Information of Associates

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010:

|                                   | As at December 31, |                   | As at January 1, |  |
|-----------------------------------|--------------------|-------------------|------------------|--|
|                                   | 2012               | 2011              | 2011             |  |
|                                   |                    | (in million pesos | 3)               |  |
| Statements of Financial Position: |                    |                   |                  |  |
| Noncurrent assets                 | 296                | 893               | 8,375            |  |
| Current assets                    | 610                | 912               | 3,947            |  |
| Capital deficiency                | (1,678)            | (858)             | 2,723            |  |
| Noncurrent liabilities            | 872                | 1,489             | 5,503            |  |
| Current liabilities               | 1,712              | 1,174             | 4,096            |  |
|                                   |                    |                   |                  |  |
|                                   | 2012               | 2011              | 2010             |  |
|                                   |                    | (in million pesos | 3)               |  |
| Income Statements:                |                    |                   |                  |  |
| Revenues                          | 138                | 484               | 246,807          |  |
| Expenses                          | 158                | 249               | 229,145          |  |
| Other expenses                    | 2                  | 17                | 1,242            |  |
| Net income                        | 15                 | 248               | 10,834           |  |

We have no outstanding contingent liabilities or capital commitments with our associates as at December 31, 2012 and 2011, and January 1, 2011.

### Investments in Joint Ventures

#### Investment in Beacon

On March 1, 2010, PCEV, MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings of PCEV and MPIC in Meralco. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Beacon's authorized capital stock of Php5,000 million consists of 3 billion common shares with a par value of Php1 per share and 2 billion preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash as further discussed below in "Transfer of Meralco Shares to Beacon" section below for further information.

PCEV likewise subscribed to 1,156.5 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154.2 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

### Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154.2 million and 163.6 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154.2 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

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

Since the transactions involve entities with common shareholders, PCEV recognized a deferred gain on transfer of the Meralco shares amounting to Php8,145 million, equivalent to the difference between the Php15,136 million transfer price of the Meralco shares and the Php6,991 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain was presented as an adjustment to the investment cost of the Beacon preferred shares in 2011. Similar to the deferred gain on the transfer of the 154.2 million Meralco shares, the deferred gain will only be realized upon the disposal of the Meralco shares to a third party.

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php20,801 million, Php16,593 million and Php15,438 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

# PCEV's Additional Investment in Beacon

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

### Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million of its investment in Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million which took effect on June 29, 2012. In this instance, the sale of Beacon preferred shares is deemed as a sale between non-related entities. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon. The carrying value of PCEV's investment in Beacon's preferred shares classified as available-for-sale financial assets, amounting to Php5,440 million and Php6,991 million as at December 31, 2012 and 2011, respectively, was presented as part of available-for-sale financial investments in our consolidated statements of financial position.

## Call Option

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

On March 30, 2010, Beacon exercised the Call Option and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million.

#### Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option and the 68.8 million shares transferred by PCEV to Beacon in October 2011, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, Rockwell Land Corporation, or Rockwell, common shares that may be declared as property dividends by Meralco. Beacon recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for said Rockwell common shares. The liability for contingent consideration was remeasured based on the fair value of said Rockwell common shares as at December 31, 2011 and 2010 and the resulting remeasurement loss of Php317 million and Php331 million were charged to Beacon's profit or loss for the years ended December 31, 2011 and 2010, respectively.

On February 27, 2012, Meralco's Board of Directors declared its common shareholdings in Rockwell as property dividend, to shareholders of record as at March 23, 2012, payable five days after the approval by the Philippine SEC of such property dividend, which approval was issued on April 25, 2012. Thereafter, Beacon recognized the property dividend received from Meralco as "Investment in available-for-sale financial assets" account. On June 27, 2012, Beacon sold its investment in Rockwell common shares, arising from Meralco shares acquired from the market, to FPHC and FPHC Pension Fund for a cash consideration of Php2 per share or an aggregate amount of Php283 million, thus, recognizing a gain on disposal of investment amounting to Php77 million for the difference between the consideration and the value of the property dividend. On June 27 and 28, 2012, Beacon transferred its investment in Rockwell common shares arising from Meralco shares acquired from PCEV, MPIC, FPHC and First Philippine Utilities Corporation, or FPUC, to FPHC through a crossed sale at the PSE. With the transfer, Beacon derecognized the outstanding balance of its liability for contingent consideration.

### Governance Arrangements

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

### Beacon's Acquisition of Additional Meralco Shares

A summary of Beacon's purchases of Meralco shares are shown below (in millions except for nominal value per share):

| Date                  | Number of | Beneficial | Nominal Value | Aggregate |
|-----------------------|-----------|------------|---------------|-----------|
|                       | Shares    | Ownership  | Per Share     | Cost*     |
| Various dates in 2011 | 49.9      | 4.40%      | -             | 14,310.0  |
| January 2012          | 30.0      | 2.70%      | 295           | 9,103.8   |
| November 2012         | 3.2       | 0.30%      | 263           | 841.7     |
| December 2012         | 0.3       | 0.03%      | 249           | 89.5      |

\* Inclusive of transaction costs.

As at December 31, 2012, Beacon beneficially owned 545 million Meralco common shares representing approximately 48% beneficial ownership in Meralco with a carrying value of Php113,934 million and market value of Php142,245 million based on quoted price of Php261 per share. As at December 31, 2011, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of Php164,092 million and market value of Php126,379 million based on quoted price of Php247 per share. As at January 1, 2011, Beacon beneficially owned 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco with a carrying value of Php73,322 million and market value of Php89,491 million based on quoted price of Php228 per share.

## Beacon Financing

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost of Php168.5 million) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to Php17,441 million, Php17,835 million and Php16,027 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was prepaid in full on March 27, 2013.

On May 24, 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility as at December 31, 2011 amounting to Php4,000 million was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The remaining Php7,000 million was subsequently drawn on July 9, 2012 and used for the payment of the final tranche of the deferred purchase made in May 2011. The outstanding balance of the facility amounted to Php10,856 million, Php3,897 million and nil as at December 31, 2012 and 2011, and January 1, 2011, respectively.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC. The outstanding balance of the facility amounted to Php5,000 million as at December 31, 2012. The loan was prepaid in full on August 1, 2013.

On February 6, 2013, Beacon entered into a Php17,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php18,000 million ten-year Corporate Notes Facility under a Facility Agreement dated March 22, 2010. The loan facility is divided into two tranches with the first tranche amounting to Php2,285 million (the "Tranche A") and the second tranche amounting to Php14,715 million (the "Tranche B").

Both tranches have a term of ten years with semi-annual interest and principal payments starting May 27, 2013 with final repayment on March 27, 2023. The Tranche A bears a fixed interest rate based on the ten-year PDST-F plus a spread, subject to a floor rate. The Tranche B bears a fixed interest rate for the first five years from the Drawdown Date based on the five-year PDST-F plus a spread, subject to a floor rate. For the next five years, the fixed interest rate for Tranche B will be repriced based on the five-year PDST-F on the Business Day immediately preceding the Repricing Date plus a spread, provided that such interest rate shall not be lower than the applicable interest rate for the first five years.

On May 27, 2013, Beacon entered into a Forward Starting Interest Rate Swap, or Forward Starting IRS, to hedge the interest repricing risk on the outstanding balance of the Tranche B (Php14,715 million) by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e., benchmark rate and fixing date). The hedge is expected to be highly effective and such as Beacon designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon's other comprehensive income (loss) reserve account.

On July 29, 2013, Beacon entered into a Php9,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php5,000 million ten-year corporate notes facility under a Facility Agreement dated November 9, 2011 and to partially finance the acquisition of the additional 18.3 million Meralco common shares. This facility was fully drawn on August 1, 2013 with semi-annual interest and principal payments starting July 31, 2013 with final repayment on July 31, 2023. The loan facility is divided into two tranches with the first tranche amounting to Php2,950 million (the "Tranche A") and the second tranche amounting to Php6,050 million (the "Tranche B").

On August 13, 2013, Beacon availed of two short-term notes from local banks, each with a principal sum of Php200 million. Both notes are payable in full not later than November 13, 2013 (then maturity date) and bear interest at a fixed rate equivalent to the higher of 4.5% per annum and the Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Agreement Rate prevailing on the interest setting date plus 1%.

The above facilities were secured by a pledge over the Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated long-term debt.

## Investment of SeMI in MPS

In June 2010, SeMI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SeMI and MasterCard Asia, respectively. On November 9, 2010, SeMI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SeMI, respectively. On April 25, 2012, SeMI remitted the amount of US\$2 million representing the 60% payment for the additional shares allotted to SeMI. On August 23, 2012, the balance of US\$1 million representing the 40% of the remaining additional shares was paid.

On March 26, 2012, SeMI entered into a licensing agreement with MasterCard Asia to accept and process MasterCard Asia's debit and credit card transactions of accredited merchants. SeMI became the first non-bank institution in the country to be granted an acquiring license by MasterCard Asia.

The carrying values of SeMI's investment in MPS amounted to Php54 million, nil and Php104 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% equity interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million each as at December 31, 2012 and 2011, and January 1, 2011. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at December 31, 2012.

#### Summarized Financial Information of Joint Ventures

The following table presents our share in the summarized financial information of our investments in joint ventures as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010:

|                                   | December 31, |                    | January 1 |
|-----------------------------------|--------------|--------------------|-----------|
|                                   | 2012         | 2011               | 2011      |
|                                   |              | (in million pesos) |           |
| Statements of Financial Position: |              |                    |           |
| Noncurrent assets                 | 56,970       | 51,985             | 36,697    |
| Current assets                    | 1,158        | 822                | 912       |
| Equity                            | 40,507       | 36,210             | 27,520    |
| Noncurrent liabilities            | 16,448       | 10,866             | 8,018     |
| Current liabilities               | 1,173        | 5,731              | 2,071     |
|                                   | 2012         | 2011               | 2010      |
|                                   |              | (in million pesos) |           |
| Income Statements:                |              | ( - 1)             |           |
| Revenues                          | 3,752        | 2,450              | 2,884     |
| Expenses                          | 143          | 81                 | 297       |
| Other expenses                    | 1,515        | 1,070              | 1,503     |
| Net income                        | 2,094        | 1,299              | 1,065     |

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at December 31, 2012 and 2011, and January 1, 2011.

#### Investment in MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 540 thousand net subscribers as at September 30, 2013. ePLDT's deposit for future PDRs subscription amounted to Php6 billion for Cignal TV PDRs as at December 31, 2012.

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

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. See Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.

In 2013, ePLDT made various deposits aggregating to Php3.6 billion and Php1.950 billion for its investment in Satventures PDRs and Hastings PDRs of MediaQuest, respectively.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs will provide ePLDT an aggregate of 64% economic interest in Cignal TV.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

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

## 11. Investment in Debt Securities and Other Long-term Investments

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|  | December 31, |                    | January 1 |
|--|--------------|--------------------|-----------|
|  | 2012         | 2011               | 2011      |
|  |              | (in million pesos) |           |
| Security Bank Corporation, or Security Bank, Time Deposits | 205          |                    | -         |
| Rizal Commercial Banking Corporation, or RCBC, Note        | 150          | 150                | 150       |
| National Power Corporation, or NAPOCOR, Zero Coupon Bond   | -            | 358                | 334       |
|  | 355          | 508                | 484       |
| Less current portion (Note 27)                             | 150          | 358                | -         |
| Noncurrent portion (Note 27)                               | 205          | 150                | 484       |

#### Security Bank Time Deposits

In October 2012, PLDT and Smart invested US\$2.5 million each in a five-year time deposit with Security Bank maturing on October 11, 2017 at a gross coupon rate of 4%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposits amounted to US\$42 thousand, or Php2 million, for the year ended December 31, 2012.

### RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC early redeemed its Tier 2 Note with face value of Php150 million and interest payment of Php2 million on February 22, 2013 pursuant to the exercise of Redemption at the Option of the Issuer and as approved by the Bangko Sentral ng Pilipinas. Interest income recognized on the RCBC Note amounted to Php8 million in each of the years ended December 31, 2012, 2011 and 2010.

## NAPOCOR Zero Coupon Bond

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, that matured on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php23 million in each of the years ended December 31, 2012 and 2011, while Php22 million for the year ended December 31, 2010.

### 12. Investment Properties

Changes in investment properties account for the years ended December 31, 2012 and 2011 are as follows:

|   | 2012  | 2011               |
|---|-------|--------------------|
|   |       | (in million pesos) |
| Balance at beginning of the year  | 1,115 | 1,560              |
| Net gains from fair value adjustments charged to profit or loss <sup>(1)</sup> (Note 3) | 21    | 26                 |
| Transfers to property, plant and equipment – net (Note 9)                               | (289) | (470)              |
| Disposals   | (135) | ` (1)́             |
| Balance at end of the year (Note 3)   | 712   | 1,115              |

<sup>(1)</sup> Presented as part of "other income" in our consolidated income statement.

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation for land was based on an open market value, supported by a market evidence in which such assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of valuation, while the valuation for building was based on the depreciated replacement cost approach. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses that do not generate rental income related to investment properties amounted to Php54 million, Php70 million and Php75 million for the years ended December 31, 2012, 2011 and 2010, respectively.

## 13. Business Combinations and Acquisition of Noncontrolling Interests

#### 2012 Acquisitions

#### ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT, IPVI and IEI entered into a Sale and Purchase Agreement whereby IPVI and IEI sold its 100% ownership in IPCDSI to ePLDT for a purchase price of Php728 million and Php72 million shareholder advances. The purchase price is subject to adjustments as enumerated herein: (a) receivables of Php13 million as specified in the schedule attached to the Sale and Purchase Agreement, provided that IPCDSI shall have collected such receivables, in whole or in part, within six months from October 12, 2012, or Closing Date; and (b) write-off of Philippine peso and U.S. dollar deposits of IPDCI, former parent company of IPCDSI, in Export and Industry Bank, Inc. amounting to Php8 million.

ePLDT shall pay the purchase price as follows: (a) initial payment of Php629 million on Closing Date; (b) retention amount of Php50 million to be remitted by ePLDT on Claim Period Termination Date (first business day after six months from Closing Date) subject to conditions as set forth in the Sale and Purchase Agreement, among which is the claim for deduction from the retention amount due to establishment of undisclosed liabilities or uncollected receivables; and (c) escrow amount of Php100 million deposited with an escrow agent designed by both parties on Closing Date and will be released to relevant party subject to the amount of EBITDA valuation. An additional consideration may be paid by ePLDT if the EBITDA valuation exceeds Php140 million: ePLDT determined that IPCDSI did not exceed Php140 million; thus, ePLDT does not have any contingent liability as at December 31, 2012.

The purchase price, after the adjustments on retention payable and escrow amount, amounted to Php693 million.

IPCDSI owns and operates two internet data centers in the country and provides enterprises with managed data services and cloud-based business solutions across a wide range of industries including IT solutions providers, gaming companies, e-learning and healthcare. IPCDSI is the country's first and only Salesforce.com Cloud Alliance Partner providing Salesforce CRM licenses and consulting services to businesses. In addition, IPCDSI is also the country's premier Google Enterprise Partner, allowing local organizations to adopt a cloud computing mindset and to ThinkOutCloud<sup>™</sup>. Our investment in IPCDSI allows us to complete our multi-tiered data center product suite and expand our cloud solutions business. See Note 2 − Summary of Significant Accounting Policies − ePLDT's Acquisition of IPCDSI.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

|  | Previous<br>Carrying Values | Values<br>Recognized or<br>Acquisition |
|--|-----------------------------|--|
|  | (in million                 | pesos)                                 |
| Assets:                                |                             |  |
| Property, plant and equipment (Note 9) | 267                         | 267                                    |
| Intangible assets (Note 14)            | -                           | 2                                      |
| Other noncurrent assets                | 7                           | 7                                      |
| Cash and cash equivalents              | 14                          | 14                                     |
| Trade and other receivables            | 159                         | 159                                    |
| Prepayments and other current assets   | 30                          | 30                                     |
|  | 477                         | 479                                    |

|  | Previous<br>Carrying Values | Values<br>Recognized or<br>Acquisition |
|--|-----------------------------|--|
|  | (in millior                 | n pesos)                               |
| Liabilities:                                   |                             |  |
| Long-term debt                                 | 26                          | 26                                     |
| Obligations under finance lease                | 18                          | 18                                     |
| Other noncurrent liabilities                   | 43                          | 43                                     |
| Accounts payable                               | 212                         | 212                                    |
| Accrued expenses and other current liabilities | 20                          | 20                                     |
|  | 319                         | 319                                    |
| Total identifiable net assets acquired         | 158                         | 160                                    |
| Goodwill from the acquisition (Note 14)        | -                           | 533                                    |
| Purchase consideration transferred             | 158                         | 693                                    |
| Cash flows from investing activity:            |                             |  |
| Net cash acquired with subsidiary              |                             | 14                                     |
| Cash paid                                      |                             | (693)                                  |
| Purchase of subsidiary – net of cash acquired  |                             | (679)                                  |

The net assets acquired at the date of acquisition were based on a final assessment of fair value.

The fair value and gross amount of trade and other receivables amounted to Php159 million and Php196 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php37 million.

The goodwill of Php533 million pertains to the fair value of IPCDSI's data center business, which includes operations of data centers, managed data services and cloud-based business solutions across a wide range of industries. The intangible assets of Php2 million pertain to the fair value of IPCDSI's customer list and licenses.

Our consolidated revenues and net income would have increased by Php228 million and Php24 million, respectively, for the year ended December 31, 2012 had the acquisition of IPCDSI actually taken place on January 1, 2012. Total revenues and net income of IPCDSI included in our consolidated income statement from October 12 to December 31, 2012 amounted to Php206 million and Php32 million, respectively.

### 2011 Acquisitions

#### SPi's Acquisition of Laserwords

On November 1, 2011, SPi acquired, through SPi Technologies India Private Ltd., a wholly-owned subsidiary of SPi, a 100% equity interest in Laserwords for a total cash consideration of US\$23 million or Php1,030 million.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition as follows:

|  | Previous Carrying Values |                       | Fair Va<br>Recognized o |                       |  |
|--|--------------------------|-----------------------|-------------------------|-----------------------|--|
|  | In U.S. Dollar           | In Php <sup>(1)</sup> | In U.S. Dollar          | In Php <sup>(1)</sup> |  |
|  |                          | (in m                 | illions)                |                       |  |
| Assets:  |                          |                       |                         |                       |  |
| Property, plant and equipment (Note 9)         | _                        | 20                    | 3                       | 117                   |  |
| Deferred income tax assets - net (Note 7)      | -                        | 4                     | _                       | 4                     |  |
| Goodwill (Note 14)                             | 11                       | 460                   | _                       | -                     |  |
| Intangible assets (Note 14)                    | _                        | -                     | 7                       | 286                   |  |
| Cash and cash equivalents                      | 1                        | 52                    | 1                       | 52                    |  |
| Trade and other receivables                    | 4                        | 175                   | 4                       | 175                   |  |
| Other current assets                           | 1                        | 71                    | 1                       | 71                    |  |
|  | 17                       | 782                   | 16                      | 705                   |  |
| Liabilities:                                   |                          |                       |                         |                       |  |
| Accounts payable                               | 2                        | 86                    | 2                       | 86                    |  |
| Deferred income tax liabilities                | -                        | -                     | 2                       | 93                    |  |
| Accrued expenses and other current liabilities | 1                        | 6                     | -                       | 6                     |  |
| Other current liabilities                      | 1                        | 48                    | 1                       | 48                    |  |
|  | 4                        | 140                   | 5                       | 233                   |  |
| Total identifiable net assets acquired         | 13                       | 642                   | 11                      | 472                   |  |
| Goodwill from the acquisition (Note 14)        |                          |                       | 12                      | 558                   |  |
| Purchase consideration transferred             |                          |                       | 23                      | 1,030                 |  |
| Cash flows from investing activity:            |                          |                       |                         |                       |  |
| Net cash acquired with subsidiary              |                          |                       | 1                       | 53                    |  |
| Cash paid                                      |                          |                       | (23)                    | (1,030)               |  |
| Purchase of subsidiary – net of cash acquired  |                          |                       | (22)                    | (977)                 |  |
| Cash flow from operating activity:             |                          |                       |                         |                       |  |
| Transaction cost paid                          |                          |                       |                         | 34                    |  |

<sup>(1)</sup> Converted to Philippine Peso using the exchange rate at the time of purchase of Php42.98 to US\$1.00.

The valuation of Laserwords' assets was completed in 2012 and the fair value of intangible assets were determined to be Php286 million. The fair value of goodwill decreased from Php849 million to Php558 million as a result of adjustments in the fair values of intangible assets and certain assets and liabilities as presented in the above table.

The goodwill of Php558 million pertains to the assembled workforce and existing contracts with the customers for publishing services.

The intangible assets pertaining to Laserwords' customer contracts and customer relationship were determined at Php286 million with estimated useful lives of three to 10 years. Intangible assets were valued by an independent appraiser based on multiple excess earnings approach using weighted average cost of capital of 15.9%.

The fair value and gross amount of trade and other receivables amounted to Php175 million and Php185 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php10 million.

Our consolidated revenues would have increased by Php804 million and our net income would have decreased by Php8 million for the year ended December 31, 2011 had the acquisition of Laserwords actually taken place on January 1, 2011. Total revenues and net income of Laserwords included in our consolidated income statement from November 1, 2011 to December 31, 2011 amounted to Php129 million and Php26 million, respectively.

### ePLDT's Acquisition of ePDS

On August 24, 2011, Quantium and ePLDT entered into a Deed of Sale of Shares whereby Quantium sold an aggregate 6 million of its common shares equivalent to 17% of the issued and outstanding capital stock of ePDS, to ePLDT for a cash consideration of Php32 million. This additional acquisition of ePDS shares increased ePLDT's shareholding in ePDS from 50% equity interest with a carrying value of Php16.5 million to 67% equity interest with a total carrying value at the time of acquisition of Php49 million. Previously, ePLDT accounted for its investment in ePDS as investment in joint venture.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values as follows at date of acquisition:

|  | Previous<br>Carrying Values | Fair Values<br>Recognized c<br>Acquisition |
|--|-----------------------------|--|
|  |                             | n pesos)                                   |
| Assets:  | (                           |  |
| Property, plant and equipment (Note 9)         | 12                          | 12   |
| Deferred income tax assets - net (Note 7)      | 3                           | 3  |
| Other noncurrent assets                        | 4                           | 4  |
| Cash and cash equivalents                      | 104                         | 104  |
| Trade and other receivables                    | 40                          | 40   |
| Prepayments and other current assets           | 6                           | 6  |
|  | 169                         | 169  |
| Liabilities:                                   |                             |  |
| Other noncurrent liabilities                   | 9                           | 9  |
| Accounts payable                               | 89                          | 89   |
| Accrued expenses and other current liabilities | 37                          | 37   |
|  | 135                         | 135  |
|  | 34                          | 34   |
| Noncontrolling interests                       | -                           | (11)                                       |
| Total identifiable net assets acquired         | 34                          | 23   |
| Goodwill from the acquisition (Note 14)        |                             | 26   |
| Purchase consideration transferred             |                             | 49   |
| Cash paid                                      |                             | 32   |
| Fair value of previous interest                |                             | 17   |
|  |                             | 49   |
| Cash flows from investing activity:            |                             |  |
| Net cash acquired with subsidiary              |                             | 104  |
| Cash paid                                      |                             | (32)                                       |
| Cash acquired – net of purchase of subsidiary  |                             | 72   |

Noncontrolling interests represent interest not owned by ePLDT, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php39.9 million and Php40.3 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

The goodwill of Php26 million pertains to the fair value of ePDS' printing and enveloping business.

No gain was recognized from revaluation of ePLDT's previously held interest of 50% in ePDS since the carrying value of investment approximates to the fair value at the time of acquisition of additional interest.

Our consolidated revenues and net income would have increased by Php97 million and Php10 million, respectively, for the year ended December 31, 2011 had the acquisition of ePDS actually taken place on January 1, 2011. Total revenues and net income of ePDS included in our consolidated income statement from August 24, 2011 to December 31, 2011 amounted to Php65 million and Php7 million, respectively.

## PLDT's Acquisition of Digitel

On March 29, 2011, the Board of Directors of PLDT and JGSHI approved the acquisition by PLDT of JGSHI's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.6% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010, or the Enterprise Assets. Digitel operates a fixed line business in certain parts of the country and is the 100% owner of DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGSHI and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.7 million new PLDT common shares) consideration payable for the Enterprise Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT engaged an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT. The independent financial advisor completed its review and concluded that the acquisition of the Enterprise Assets is fair and reasonable and in the interest of PLDT shareholders as a whole.

The completion of the acquisition was subject to the procurement of certain regulatory and other approvals, including: (i) the approval by the NTC of the sale or transfer of JGSHI and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock; (ii) the confirmation by the Philippine SEC of the valuation of the Enterprise Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGSHI and the other seller-parties is exempt from the registration requirement of the Securities Regulation Code, or SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the common stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Enterprise Assets and the Digitel shares which shall have been tendered pursuant to the mandatory tender offer.

In addition, the sale of the Digitel shares owned by the seller-parties was subject to the consent of certain creditors of Digitel and DMPI. Digitel and DMPI have outstanding long-term debts that had been guaranteed by JGSHI. The loans and guarantees contained 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 both for the transfer of ownership of Digitel and the replacement of JGSHI by PLDT as guarantor for these loans.

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

As part of the NTC Decision, the NTC also approved the Divestment Plan presented by PLDT, which covers the following commitments:

- CURE must sell its *Red Mobile* business to Smart consisting of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits; and

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

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

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, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum CRA 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 an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC proposed the referral to commissioners of the computation of the CRA due Smart. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

As payment for the Enterprise Assets, PLDT issued approximately 27.7 million common shares with a total issue value of around Php69 billion to the seller-parties. Said shares are subject to a lock-up period of one year during which JGSHI and the other sellers may not transfer or encumber such PLDT shares without the consent of PLDT. PLDT granted consents to the sale by JGSHI of 5.81 million and 4.56 million PLDT shares under separate option agreements that JGSHI had entered into with a Philippine associate of First Pacific and NTT DOCOMO, respectively. Following the sale of those shares in November 2011, the JG Summit Group, First Pacific Group and its Philippine affiliates, and NTT Group (NTT DOCOMO, together and NTT Communications) owned approximately 8%, 26% and 20% of PLDT's outstanding common shares, respectively, as at December 31, 2012 and 2011.

On December 8, 2011, PLDT exercised the conversion option for 4 billion Digitel common shares with stated value of Php4 billion comprising 25% of the total amount of increase in Digitel's authorized capital stock, which was paid through the assignment by PLDT to Digitel of: (i) 2013 Convertible Bonds issued by Digitel, with redemption value of US\$25 million or Php1,087 million as of the conversion date of December 8, 2011; and (ii) 15.6% of its 2014 Exchangeable Bonds issued by DCPL with redemption value of US\$66 million, or Php2,913 million, as of the exchange date of December 8, 2011. As a result of this partial conversion and exchange by PLDT of bonds into 4 billion Digitel common shares, PLDT's equity interest increased from 51.6% to 70.2% of the outstanding common stock of Digitel as at January 12, 2012.

Under the SRC, PLDT was required to conduct a mandatory tender offer for all the remaining Digitel shares held by the noncontrolling shareholders, in connection with PLDT's acquisition of initially approximately 51.6% interest in Digitel from the seller-parties. On December 5, 2011, PLDT filed its tender offer report on Philippine SEC Form 19.1 setting forth the terms of the mandatory tender offer to purchase the remaining Digitel shares at a price of Php1.6033 per Digitel share, payable in the form of either PLDT shares issued at Php2,500 per share, or one PLDT common share for every 1,559.28 Digitel shares, or cash, at the option of noncontrolling Digitel shareholders, except for tendering shareholders residing outside the Philippines, who will only be paid in cash. The tender offer period commenced on December 7, 2011 and ended on January 16, 2012. A total of 2,888 million shares were tendered by Digitel noncontrolling shareholders, representing approximately 94% of the shares held by the public. Of the shares tendered, 13% or 370 million Digitel shares were paid in cash for an aggregate amount of Php600 million, and 87% or 2,518 million Digitel shares were paid in PLDT common shares for a total of approximately 1.61 million PLDT common shares, which were issued on January 27, 2012.

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

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. As at March 26, 2012, PLDT purchased a total of 72.3 million common shares of Digitel from the open market. On May 8, 2012, PLDT's Board of Directors authorized the exchange of the remaining 2014 Exchangeable Bonds with redemption value of US\$27 million, or Php1,143 million, in exchange for 1,143 million Digitel common shares. The exchange was subject to the approval of the Philippine SEC of the increase in authorized capital stock of Digitel, which approval was obtained on September 11, 2012. As a result of the tender offer, open market acquisitions, and the exchanges described above, PLDT held 99.54% of the outstanding capital of Digitel as at December 31, 2012.

PLDT's acquisition of equity interest, convertible exchangeable bonds and advances owned by JGSHI Group, and the mandatory tender offer are linked transactions and was accounted for as a single business combination transaction.

The consideration of Php69,429 million is the sum of the fair value of PLDT's newly issued 27.7 million common shares with fair market value per share of Php2,330 and an aggregate value in the amount of Php64,492 million in exchange for the equity interest, convertible exchangeable bonds and advances owned by JGSHI Group, and the fair value of financial instruments based on the statutory put option for the mandatory tender offer of Php4,937 million. The fair value of PLDT's newly issued shares is valued at Php2,330 per share, which is the quoted fair market value per share as at the market closing on October 26, 2011. Incidental cost related to acquisition amounting to Php599 million was recognized as expense.

As a result of the transaction, goodwill amounting to Php58,870 million, representing the difference between the total consideration of Php69,429 million and the fair value of net assets acquired of Php10,559 million, was recognized.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition as follows:

|   | Previous Carrying<br>Values | Fair Values<br>Recognized o<br>Acquisition |  |  |
|---|-----------------------------|--|--|--|
|   | (in million pesos)          |  |  |  |
| Assets:<br>Property, plant and equipment (Note 9)               | 39.701                      | 42.112                                     |  |  |
| Intangible assets (Note 14)                                     | 39,701                      | 12.117                                     |  |  |
| Advances and other noncurrent assets – net of current portion   | - 153                       | 153  |  |  |
| Cash and cash equivalents                                       | 1.856                       | 1.856                                      |  |  |
| Trade and other receivables                                     | 1,593                       | 1,593                                      |  |  |
| Inventories and supplies  | 282                         | 282  |  |  |
| Prepayments   | 2.157                       | 2.157                                      |  |  |
| Current portion of advances and other noncurrent assets         | 2,137                       | 2,107                                      |  |  |
| ourient polition of advances and other honcurrent assets        | 45.746                      | 60.274                                     |  |  |
| Liabilities:  | +0,7+0                      | 00,214                                     |  |  |
| Interest-bearing financial liabilities – net of current portion | 17,401                      | 17,401                                     |  |  |
| Deferred income tax liabilities – net                           | 2,784                       | 6,960                                      |  |  |
| Derivative financial liabilities                                | 329                         | 329  |  |  |
| Pension and other employee benefits                             | 64                          | 64   |  |  |
| Customers' deposits   | 4                           | 4  |  |  |
| Deferred credits and other noncurrent liabilities               | 6.004                       | 6.004                                      |  |  |
| Accounts payable  | 2,318                       | 2,318                                      |  |  |
| Accrued expenses and other current liabilities                  | 12,202                      | 12,202                                     |  |  |
| Derivative financial liabilities                                | 88                          | 88   |  |  |
| Current portion of interest-bearing financial liabilities       | 4.345                       | 4.345                                      |  |  |
|   | 45,539                      | 49.715                                     |  |  |
| Total identifiable net assets acquired                          | 207                         | 10.559                                     |  |  |
| Goodwill from the acquisition (Note 14)                         | 201                         | 58.870                                     |  |  |
| Purchase consideration transferred                              |                             | 69,429                                     |  |  |
|   |                             | 00,120                                     |  |  |
| Fair value of newly issued PLDT common shares                   |                             | 64,492                                     |  |  |
| Mandatory tender offer option liability                         |                             | 4,937                                      |  |  |
|   |                             | 69,429                                     |  |  |
| Cash flow from investing activity:                              |                             | 001120                                     |  |  |
| Net cash acquired with subsidiary                               |                             | 1,856                                      |  |  |
| Incidental cost   |                             | 599  |  |  |

The valuation of Digitel's assets was completed in 2012 and the acquisition date fair value of intangible assets was Php12,117 million, and the fair value of property, plant and equipment was Php42,112 million, an increase of Php2,411 million over the provisional value. The December 31, 2011 comparative information was adjusted to reflect the adjustment to the provisional amounts. As a result, there was a reduction in goodwill of Php9,745 million, net of tax effect, resulting in Php58,870 million of total goodwill arising on the acquisition.

The goodwill of Php58,870 million pertains to the expected synergies once the wireless and fixed line businesses of Digitel is integrated into the PLDT Group. Expected synergies arising from the acquisition includes cost efficiencies attainable from elimination of redundant infrastructure and facilities between PLDT, Smart and Digitel, and expected increase in revenue from current market share of PLDT, Smart and Digitel due to enhanced connectivity and integrated products and services.

The intangible assets to DMPI's subscriber base, franchise, and trademark were determined at Php4,596 million, Php3,016 million and Php4,505 million, respectively. The estimated remaining useful lives of subscriber base and franchise were 9 and 16 years, respectively, while trademark has indefinite useful life. The estimated useful life of subscriber base was determined based on the historical subscriber churn rate, while the estimate useful life of the franchise was determined based on the remaining term of the wireless franchise. Trademark was assessed to have indefinite useful life because we have no plans to fade out DMPI's trademark. Due to the significant value, we expect the continued use of the trademark on our existing services and to introduce services in the future that could also display the trademark. Subscriber base, franchise and trademark were valued by an independent appraiser based on Multiple Excess Earnings Approach, Greenfield Method and Royalty Relief Method, respectively.

The fair value and gross amount of trade and other receivables amounted to Php1,593 million and Php4,071 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php2,478 million.

Upon completion of the tender offer on January 16, 2012, we recognized a net reduction adjustment in the goodwill of Php919 million. This adjustment represents the share of noncontrolling Digitel shareholders in the negative carrying value of Digitel at the end of the tender offer period amounting to Php1,004 million, net of the difference between the fair value of the PLDT's common shares issued for settlement of the purchase price of Digitel shareholders and tender offer liability recognized as at December 31, 2011 amounting to Php85 million. See Note 14 – Goodwill and Intangible Assets.

Our consolidated revenues would have increased by Php18,119 million, while our consolidated net income would have increased by Php711 million for the year ended December 31, 2011 had the acquisition of Digitel actually taken place on January 1, 2011. Total revenues and net loss of Digitel included in our consolidated income statement from October 26, 2011 to December 31, 2011 amounted to Php3,845 million and Php606 million, respectively.

#### 14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the years ended December 31, 2012 and 2011 are as follows:

| _  | Intangible Assets with Definite Life |           |           |           | Intangible<br>Assets<br>with<br>Indefinite<br>Life | Total     |                      | Total<br>Goodwill<br>and |                      |
|--|--------------------------------------|-----------|-----------|-----------|--|-----------|----------------------|--------------------------|----------------------|
|  | List                                 | Franchise | Spectrum  | Licenses  | Others   | Trademark | Intangible<br>Assets | Goodwill                 | Intangible<br>Assets |
|  | 2.00                                 | 1 runomoo | opoordani | 210011000 | (in million pesos)                                 | nadoman   | 7,00010              | accum                    | 100010               |
| December 31, 2012                        |                                      |           |           |           |  |           |                      |                          |                      |
| Costs:                                   |                                      |           |           |           |  |           |                      |                          |                      |
| Balance at beginning of the year         | 6,231                                | 3,016     | 1,205     | 120       | 1,211  | 4,505     | 16,288               | 74,322                   | 90,610               |
| Business combinations (Note 13)          | 1                                    | -         | -         | 1         | -  | -         | 2                    | 574                      | 576                  |
| Noncontrolling interest adjustments      |                                      |           |           |           |  |           |                      |                          |                      |
| (Note 13)                                | -                                    | -         | -         | -         | -  | -         | -                    | (919)                    | (919)                |
| Discontinued operations (Note 2)         | (1,691)                              | -         | -         | -         | (20)   | -         | (1,711)              | (10,097)                 | (11,808)             |
| Translation and other adjustments        | 185                                  | -         | -         | 14        | (14)   | -         | 185                  | (941)                    | (756)                |
| Balance at end of the year               | 4,726                                | 3,016     | 1,205     | 135       | 1,177  | 4,505     | 14,764               | 62,939                   | 77,703               |
| Accumulated amortization and impairment: |                                      |           |           |           |  |           |                      |                          |                      |
| Balance at beginning of the year         | 1,360                                | -         | 589       | 41        | 1,095  | -         | 3.085                | 4.222                    | 7,307                |
| Amortization during the year (Note 3)    | 778                                  | 217       | 80        | 7         | 19   | -         | 1,101                | <i>.</i> –               | 1,101                |
| Discontinued operations (Note 2)         | (1.338)                              | -         | _         | -         | (19)   | -         | (1,357)              | (3,418)                  | (4,775)              |
| Translation and other adjustments        | (78)                                 | -         | -         | 14        | (11)   | -         | (75)                 | (105)                    | (180)                |
| Balance at end of the year               | 722                                  | 217       | 669       | 62        | 1,084  | -         | 2,754                | 699                      | 3,453                |
| Net balance at end of the year (Note 3)  | 4,004                                | 2,799     | 536       | 73        | 93   | 4,505     | 12,010               | 62,240                   | 74,250               |
| Estimated useful lives (in years)        | 1-9                                  | 16        | 15        | 1–18      | 1 – 10   | _         | _                    | _                        | _                    |
| Remaining useful lives (in years)        | 1-9                                  | 15        | 15        | 2-10      | 3 - 7  | -         | -                    | -                        | -                    |

|   | Intangible Assets with Definite Li |           |          |          |                    | Intangible<br>Assets<br>with<br>Indefinite<br>Life | Total                |          | Total<br>Goodwill<br>and |
|---|------------------------------------|-----------|----------|----------|--------------------|--|----------------------|----------|--------------------------|
|   | Customer<br>List                   | Franchise | Spectrum | Licenses | Others             | Trademark  | Intangible<br>Assets | Goodwill | Intangible<br>Assets     |
|   |                                    |           |          |          | (in million pesos) |  |                      |          |                          |
| December 31, 2011                       |                                    |           |          |          |                    |  |                      |          |                          |
| Costs:                                  |                                    |           |          |          |                    |  |                      |          |                          |
| Balance at beginning of the year        | 1,632                              | -         | 1,205    | 554      | 1,152              | -  | 4,543                | 14,733   | 19,276                   |
| Business combinations (Note 13)         | 4,882                              | 3,016     | -        | -        | -                  | 4,505  | 12,403               | 59,454   | 71,857                   |
| Additions                               | -                                  | -         | -        | 2        | -                  | -  | 2                    | -        | 2                        |
| Disposal                                | -                                  | -         | -        | (436)    | -                  | -  | (436)                | (464)    | (900)                    |
| Translation and other adjustments       | (283)                              | -         | -        | -        | 59                 | -  | (224)                | 599      | 375                      |
| Balance at end of the year              | 6,231                              | 3,016     | 1,205    | 120      | 1,211              | 4,505  | 16,288               | 74,322   | 90,610                   |
| Accumulated amortization and impairment |                                    |           |          |          |                    |  |                      |          |                          |
| Balance at beginning of the year        | 1.212                              | _         | 509      | 426      | 1,018              | -  | 3,165                | 4.626    | 7,791                    |
| Amortization during the year (Note 3)   | 146                                | _         | 80       | 17       | 21                 | -  | 264                  | _        | 264                      |
| Disposal                                | _                                  | -         | _        | (407)    | -                  | -  | (407)                | (430)    | (837)                    |
| Translation and other adjustments       | 2                                  | -         | -        | 5        | 56                 | -  | 63                   | 26       | 89                       |
| Balance at end of the year              | 1.360                              | -         | 589      | 41       | 1.095              | -  | 3.085                | 4,222    | 7,307                    |
| Net balance at end of the year (Note 3) | 4,871                              | 3,016     | 616      | 79       | 116                | 4,505  | 13,203               | 70,100   | 83,303                   |
| Estimated useful lives (in years)       | 1-9                                | 16        | 15       | 18       | 1 – 10             | _  | _                    | _        | -                        |
| Remaining useful lives (in years)       | 2 - 9                              | 16        | 8        | 11       | 1 – 8              | -  | -                    | -        | -                        |

The goodwill and intangible assets of our reportable segments as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|   |          | December 31, 2012  |        |  |  |
|---|----------|--------------------|--------|--|--|
|   | Wireless | Fixed Line         | Total  |  |  |
|   |          | (in million pesos) |        |  |  |
| Trademark                                     | 4,505    | _                  | 4,505  |  |  |
| Customer list                                 | 4,003    | 1                  | 4,004  |  |  |
| Franchise                                     | 2,799    | -                  | 2,799  |  |  |
| Spectrum                                      | 536      | -                  | 536    |  |  |
| Licenses                                      | 73       | -                  | 73     |  |  |
| Others  | 93       | -                  | 93     |  |  |
| Total intangible assets                       | 12,009   | 1                  | 12,010 |  |  |
| Goodwill                                      | 57,322   | 4,918              | 62,240 |  |  |
| Total intangible assets and goodwill (Note 3) | 69,331   | 4,919              | 74,250 |  |  |

|   | December 31, 2011 |                    |            |        |  |  |  |
|---|-------------------|--------------------|------------|--------|--|--|--|
|   |                   | Discontinued       |            |        |  |  |  |
|   | Wireless          | Fixed Line         | Operations | Total  |  |  |  |
|   |                   | (in million pesos) |            |        |  |  |  |
| Trademark                                     | 4,505             | _                  |            | 4,505  |  |  |  |
| Customer list                                 | 4,605             | -                  | 266        | 4,871  |  |  |  |
| Franchise                                     | 3,016             | -                  | -          | 3,016  |  |  |  |
| Spectrum                                      | 616               | -                  | -          | 616    |  |  |  |
| Licenses                                      | 79                | -                  | -          | 79     |  |  |  |
| Others  | 108               | -                  | 8          | 116    |  |  |  |
| Total intangible assets                       | 12,929            | -                  | 274        | 13,203 |  |  |  |
| Goodwill                                      | 57,140            | 5,263              | 7,697      | 70,100 |  |  |  |
| Total intangible assets and goodwill (Note 3) | 70,069            | 5,263              | 7,971      | 83,303 |  |  |  |

|   | January 1, 2011  |    |       |        |  |  |  |
|---|--|----|-------|--------|--|--|--|
|   | Discontinued<br>Wireless Fixed Line Operations<br>(in million pesos) |    |       |        |  |  |  |
|   |  |    |       |        |  |  |  |
| Trademark                                     | -  | `- | -     | -      |  |  |  |
| Customer list                                 | 15   | -  | 405   | 420    |  |  |  |
| Franchise                                     | -  | -  | -     | -      |  |  |  |
| Spectrum                                      | 696  | -  | -     | 696    |  |  |  |
| Licenses                                      | 87   | 41 | -     | 128    |  |  |  |
| Others  | 122  | -  | 12    | 134    |  |  |  |
| Total intangible assets                       | 920  | 41 | 417   | 1,378  |  |  |  |
| Goodwill                                      | 3,689  | 33 | 6,385 | 10,107 |  |  |  |
| Total intangible assets and goodwill (Note 3) | 4,609  | 74 | 6,802 | 11,485 |  |  |  |

# Intangible Assets

In April 2013, Smart entered into a three-year licensing agreement with MCA Music, Inc., an affiliate of the Universal Music Group, the world's largest music company with wholly-owned record operations in 77 countries. Smart recognized intangible assets of Php600 million for the license contents and marketing partnership in the Philippines.

In July 2013, Smart entered into an 18-month licensing agreement with Ivory Music and Video, Inc., a domestic corporation and one of the major labels in the Philippine music industry. Smart recognized intangible assets of Php201 million for the license contents and marketing partnership.

The consolidated future amortization of intangible assets as at December 31, 2012 is as follows:

| Year  | (in million pesos) |
|---|--------------------|
| 2013  | 803                |
| 2014  | 799                |
| 2015  | 798                |
| 2016  | 798                |
| 2017 and onwards                              | 4,307              |
| Intangible assets with definite life (Note 3) | 7,505              |
| Intangible assets with indefinite life        | 4,505              |
| Balance at end of the year                    | 12,010             |

## Impairment Testing of Goodwill and Intangible Assets with Indefinite Life

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at December 31, 2012, the PLDT Group's goodwill comprised of goodwill resulting from ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access Corporation, or Airborne Access, from ePLDT in 2008 and Smart's acquisition of SBI in 2004. The test for recoverability of the PLDT's and Smart's goodwill was applied to the fixed line and wireless asset group, respectively, which represent the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among the companies within the Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. In the case of CURE, it provided cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines covering 73% of the total cities within the country. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which is composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries shared the same facilities to leverage on a Group perspective.

Given the significant common use of network facilities among fixed and wireless companies within the Group, Management deems that the wireless and fixed line operating segment are the lowest CGU to which goodwill is to be allocated and which are expected to benefit from the synergies.

The recoverable amount of the wireless and fixed line segments had been determined using the value in use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a three-year period from 2013 to 2015. The pre-tax discount rate applied to cash flow projections is 12% for the wireless and fixed line segments. Cash flows beyond the three-year period are determined using a 2.5% growth rate for the wireless and fixed line segments, which is the same as the long-term average growth rate for the telecommunications industry.

Based on the assessment of the value-in-use of the wireless and fixed line segment, the recoverable amount exceeded the carrying amount of the CGUs, which as a result, no impairment was recognized as at December 31, 2012 and 2011, and January 1, 2011 in relation to goodwill resulting from the acquisition of IPCDSI, Digitel, ePDS, Chikka, CURE, Airborne Access, PDSI and SBI.

## 15. Cash and Cash Equivalents

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|                                      | Dece   | December 31,       |        |  |  |
|--------------------------------------|--------|--------------------|--------|--|--|
|                                      | 2012   | <b>2012</b> 2011   |        |  |  |
|                                      |        | (in million pesos) |        |  |  |
| Cash on hand and in banks (Note 27)  | 5,611  | 4,637              | 2,906  |  |  |
| Temporary cash investments (Note 27) | 31,550 | 41,420             | 33,772 |  |  |
|                                      | 37,161 | 46,057             | 36,678 |  |  |

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note* 27 – *Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,295 million, Php1,317 million and Php1,067 million for the years ended December 31, 2012, 2011 and 2010, respectively.

#### 16. Trade and Other Receivables

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of receivables from:

|  | Decen  | nber 31,           | January 1 |
|--|--------|--------------------|-----------|
|  | 2012   | 2011               | 2011      |
|  |        | (in million pesos) |           |
| Retail subscribers (Note 27)                             | 10,568 | 11,302             | 8,917     |
| Corporate subscribers (Notes 24 and 27)                  | 8,100  | 9,200              | 7,998     |
| Foreign administrations (Note 27)                        | 4,960  | 4,961              | 4,479     |
| Domestic carriers (Notes 24 and 27)                      | 1,707  | 1,323              | 1,591     |
| Dealers, agents and others (Notes 18, 24 and 27)         | 4,334  | 4,231              | 5,273     |
|  | 29,669 | 31,017             | 28,258    |
| Less allowance for doubtful accounts (Notes 3, 5 and 27) | 13,290 | 14,772             | 11,830    |
|  | 16,379 | 16,245             | 16,428    |

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the Group.

Trade receivables are non interest-bearing and are generally on terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see Note 24 - Related Party Transactions.

See Note 24 – Related Party Transactions – Terms and Conditions of Transactions with Related Parties for the summary of transactions with related parties and Note 27 – Financial Assets and Liabilities – Credit Risk on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the years ended December 31, 2012 and 2011 are as follows:

|  | Total   | Retail<br>Subscribers | Corporate<br>Subscribers | Foreign<br>Administrations | Domestic<br>Carriers | Dealers,<br>Agents and<br>Others |
|--|---------|-----------------------|--------------------------|----------------------------|----------------------|----------------------------------|
|  |         |                       | (in mi                   | llion pesos)               |                      |                                  |
| December 31, 2012                          |         |                       |                          |                            |                      |                                  |
| Balance at beginning of the year           | 14,772  | 7,264                 | 6,492                    | 199                        | 111                  | 706                              |
| Provisions (Notes 2, 3, 4 and 5)           | 2,178   | 1,404                 | 675                      | 6                          | 7                    | 86                               |
| Business combinations and others (Note 13) | 36      | -                     | 36                       | -                          | -                    | -                                |
| Discontinued operations (Note 2)           | (118)   | (2)                   | (87)                     | -                          | -                    | (29)                             |
| Write-offs                                 | (3,564) | (2,700)               | (531)                    | (95)                       | -                    | (238)                            |
| Translation and other adjustments          | (14)    | 523                   | (448)                    | (11)                       | (12)                 | (66)                             |
| Balance at end of the year                 | 13,290  | 6,489                 | 6,137                    | 99                         | 106                  | 459                              |

|  | Total   | Retail<br>Subscribers | Corporate<br>Subscribers | Foreign<br>Administrations | Domestic<br>Carriers | Dealers,<br>Agents and<br>Others |
|--|---------|-----------------------|--------------------------|----------------------------|----------------------|----------------------------------|
|  |         |                       | (in million pesos)       |                            |                      |                                  |
| Individual impairment  | 8,705   | 2,653                 | 5,514                    | 99                         | 106                  | 333                              |
| Collective impairment  | 4,585   | 3,836                 | 623                      | -                          | -                    | 126                              |
|  | 13,290  | 6,489                 | 6,137                    | 99                         | 106                  | 459                              |
| Gross amount of receivables individually<br>impaired, before deducting any |         |                       |                          |                            |                      |                                  |
| impairment allowance   | 8,705   | 2,653                 | 5,514                    | 99                         | 106                  | 333                              |
| December 31, 2011  |         |                       |                          |                            |                      |                                  |
| Balance at beginning of the year   | 11.830  | 5.045                 | 5,956                    | 158                        | 138                  | 533                              |
| Business combinations and others (Note 13)                                 | 2,463   | 1.870                 | 305                      | 42                         | 56                   | 190                              |
| Provisions (Notes 2, 3, 4 and 5)   | 1.549   | 812                   | 673                      | 12                         | 6                    | 46                               |
| Write-offs   | (1,037) | (675)                 | (344)                    | -                          | (11)                 | (7                               |
| Translation and other adjustments  | (33)    | 212                   | (98)                     | (13)                       | (78)                 | (56                              |
| Balance at end of the year   | 14,772  | 7,264                 | 6,492                    | 199                        | 111                  | 706                              |
| Individual impairment  | 9,239   | 3.099                 | 5.278                    | 199                        | 111                  | 552                              |
| Collective impairment  | 5.533   | 4,165                 | 1,214                    | _                          | -                    | 154                              |
|  | 14,772  | 7,264                 | 6,492                    | 199                        | 111                  | 706                              |
| Gross amount of receivables individually<br>impaired, before deducting any |         |                       |                          |                            |                      |                                  |
| impairment allowance   | 9,239   | 3,099                 | 5,278                    | 199                        | 111                  | 552                              |

# 17. Inventories and Supplies

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|   | December 31, |                    | January 1 |  |
|---|--------------|--------------------|-----------|--|
|   | 2012         | 2011               | 2011      |  |
|   |              | (in million pesos) |           |  |
| Terminal and cellular phone units:  |              |                    |           |  |
| At net realizable value   | 1,605        | 1,349              | 737       |  |
| At cost   | 1,942        | 1,728              | 918       |  |
| Spare parts and supplies:   |              |                    |           |  |
| At net realizable value   | 1,372        | 1,606              | 1,152     |  |
| At cost   | 1,985        | 2,256              | 2,163     |  |
| Others:   |              |                    |           |  |
| At net realizable value   | 490          | 872                | 330       |  |
| At cost   | 494          | 875                | 333       |  |
| Total inventories and supplies at the lower of cost or net realizable value |              |                    |           |  |
| (Notes 3, 4 and 5)  | 3,467        | 3.827              | 2.219     |  |

The cost of inventories and supplies recognized as expense for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012  | 2011               | 2010  |
|---|-------|--------------------|-------|
|   |       | (in million pesos) |       |
| Cost of sales   | 8,035 | 2,037              | 3,517 |
| Repairs and maintenance                                   | 443   | 517                | 357   |
| Write-down of inventories and supplies (Notes 3, 4 and 5) | 215   | 143                | 108   |
|   | 8,693 | 2,697              | 3,982 |

# 18. Prepayments

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|  | Dec                    | December 31,       |        |  |
|--|------------------------|--------------------|--------|--|
|  | 2012                   | 2011               | 2011   |  |
|  | (As Adjusted – Note 2) |                    |        |  |
|  |                        | (in million pesos) |        |  |
| Prepaid taxes (Note 5)                 | 6,340                  | 8,219              | 7,476  |  |
| Prepaid benefit costs (Notes 3 and 25) | 1,471                  | 8,482              | 5,734  |  |
| Prepaid selling and promotions         | 902                    | 907                | 1,011  |  |
| Prepaid fees and licenses              | 318                    | 13                 | 40     |  |
| Prepaid rent – net (Note 3)            | 246                    | 137                | 53     |  |
| Prepaid insurance (Note 24)            | 144                    | 156                | 122    |  |
| Other prepayments                      | 223                    | 128                | 62     |  |
|  | 9,644                  | 18,042             | 14,498 |  |
| Less current portion of prepayments    | 5,144                  | 6,345              | 5,418  |  |
| Noncurrent portion of prepayments      | 4,500                  | 11,697             | 9,080  |  |

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 25 – Employee Benefits*.

Agreement between PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund, or PLDT-BTF, for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. Total prepayment under the advertising placement agreements amounted to Php893 million each as at December 31, 2012 and 2011, and January 1, 2011. See *Note 24 – Related Party Transactions*.

## 19. Equity

Changes in PLDT's capital account for the years ended December 31, 2012, 2011 and 2010 are as follows:

|                                  | Preferre<br>Php10 p | Voting<br>d Stock –<br>oar value<br>share | Voting Preferred<br>Stock – Php1<br>par value per<br>share |                             |                   |                                |          |
|----------------------------------|---------------------|---|--|-----------------------------|-------------------|--------------------------------|----------|
|                                  | Series<br>A to II   | IV  | Voting   | Total<br>Preferred<br>Stock |                   | Common Sto<br>Php5 par value p |          |
| —                                |                     | Number of                                 | Shares   |                             | Amount            | Number of Shares               | Amount   |
| Authorized                       | 508                 | 300                                       | 150  | (in mill<br>958             | ions)<br>Php8,225 | 234                            | Php1,170 |
| Issued                           |                     |   |  |                             |                   |                                | • •      |
| Balances as at January 1, 2012   | 406                 | 36  | -  | 442                         | Php4,419          | 217                            | Php1,085 |
| Issuance                         | -                   | _   | 150  | 150                         | 150               | 2                              | 8        |
| Conversion                       | (3)                 | -   | -  | (3)                         | (30)              | -                              | -        |
| Redemption                       | (403)               | -   | -  | (403)                       | (4,029)           | -                              | -        |
| Balances as at December 31, 201  | 2 -                 | 36  | 150  | 186                         | Php510            | 219                            | Php1,093 |
| Balances as at January 1, 2011   | 406                 | 36  | -  | 442                         | Php4,419          | 189                            | Php947   |
| Issuance                         | _                   | _   | -  | _                           | 2                 | 28                             | 138      |
| Conversion                       | -                   | -   | -  | _                           | (2)               | -                              | -        |
| Balances as at December 31, 2011 | 406                 | 36  | _  | 442                         | Php4,419          | 217                            | Php1,085 |
| Balances as at January 1, 2010   | 405                 | 36  | _  | 441                         | Php4,416          | 189                            | Php947   |
| Issuance                         | 1                   | -   | -  | 1                           | 3                 | -                              | . –      |
| Balances as at December 31, 2010 | 406                 | 36  | -  | 442                         | Php4,419          | 189                            | Php947   |

### Preferred Stock

#### Non-Voting Serial Preferred Stocks

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the PLDT Subscriber Investment Plan, or SIP.

The Series HH and II 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2012 was Php5.00 each per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the PLDT Subscriber Investment Plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series HH and II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

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

#### Voting Preferred Stock

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines and at least 60% of the board of directors of such corporation are citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2012. See Note 1 – Corporate Information and Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition.

# Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the SIP Preferred Shares, and all such shares were redeemed and retired effective on 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 Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

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

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php63 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php279 million was withdrawn from the Trust Account, representing total payments on redemption as at December 31, 2012. The balance of the Trust Account of Php7,884 million was presented as part of the current portion of advances and other noncurrent assets and the related redemption liability of the same amount was presented as part of accrued expenses and other current liabilities in our statement of financial position as at December 31, 2012. See *Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 27 – Financial Assets and Liabilities*.

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

PLDT expects to similarly redeem the outstanding shares of Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008 and Series II 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

# Common Stock

The Board of Directors approved 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 in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our core EPS, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2012 and 2011, and January 1, 2011.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

## Decrease in Authorized Capital Stock

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php1.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each; and (b) 234 million shares of Common Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each; and (b) 234 million shares of Common Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (c) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. On October 3, 2013, the Philippine SEC approved the decrease in authorized capital stock and amendments to the Articles of Incorporation of PLDT.

# **Dividends Declared**

Our dividends declared for the years ended December 31, 2012, 2011 and 2010 are detailed as follows:

# December 31, 2012

|                                      |                  | Date              | Amount             |                             |                  |
|--------------------------------------|------------------|-------------------|--------------------|-----------------------------|------------------|
| Class                                | Approved         | Record            | Payable            | Per Share                   | Total            |
|                                      |                  |                   |                    | (in million pesos, except p | er share amounts |
| 10% Cumulative Convertible Preferred |                  |                   |                    |                             |                  |
| Stock                                |                  |                   |                    |                             |                  |
| Series GG                            | January 31, 2012 | February 29, 2012 | March 30, 2012     | 1.00                        | -                |
| Series GG – Final Dividends          | July 3, 2012     | May 22, 2012      | August 30, 2012    | 0.0027/day                  | -                |
| Series HH                            | March 22, 2012   | April 21, 2012    | May 31, 2012       | 1.00                        | -                |
| Series II                            | March 22, 2012   | April 21, 2012    | May 31, 2012       | 1.00                        | -                |
|                                      |                  | ·                 |                    |                             |                  |
| Cumulative Non-Convertible           |                  |                   |                    |                             |                  |
| Redeemable Preferred Stock           |                  |                   |                    |                             |                  |
| Series IV*                           | January 31, 2012 | February 20, 2012 | March 15, 2012     | -                           | 12               |
|                                      | May 8, 2012      | May 28, 2012      | June 15, 2012      | _                           | 13               |
|                                      | August 7, 2012   | August 22, 2012   | September 15, 2012 | -                           | 12               |
|                                      | November 6, 2012 | November 20, 2012 | December 15, 2012  | _                           | 12               |
|                                      |                  |                   |                    |                             | 49               |
| Voting Preferred Stock               | December 4, 2012 | December 19, 2012 | January 15, 2013   | 0.0001806/day               | 2                |
| Common Stock                         |                  |                   |                    |                             |                  |
| Regular Dividend                     | March 6, 2012    | March 20, 2012    | April 20, 2012     | 63.00                       | 13,611           |
| 0                                    | August 7, 2012   | August 31, 2012   | September 28, 2012 | 60.00                       | 12,964           |
| Special Dividend                     | March 6, 2012    | March 20, 2012    | April 20, 2012     | 48.00                       | 10.371           |
|                                      |                  |                   |                    |                             | 36,946           |
| Charged to retained earnings         |                  |                   |                    |                             | 36,997           |

\* Dividends were declared based on total amount paid up.

# December 31, 2011

| (In million pesos, except per share           Stock           Series CC         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series FF         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series FF         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series FF         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series FF         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series B, F, Q, V and Z         March 32, 2011         August 3, 2011         March 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         Colspan="2">Colspan= 3, 2011         October 7, 2011         October 7, 2011 <th colsp<="" th=""><th></th><th></th><th>Date</th><th colspan="3">Amount</th></th>  | <th></th> <th></th> <th>Date</th> <th colspan="3">Amount</th> |                    |                   | Date               | Amount                      |                  |  |
|---|---|--------------------|-------------------|--------------------|-----------------------------|------------------|--|
| 10% Cumulative Convertible Preferred<br>Stock         Nome         Nome<  | Class   | Approved           | Record            | Payable            | Per Share                   | Total            |  |
| Stock           Series CC         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series DD         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series GG         January 25, 2011         April 28, 2011         March 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 3, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day   |   |                    |                   |                    | (in million pesos, except p | er share amounts |  |
| Series CC         January 25, 2011         February 10, 2011         March 31, 2011         1.00           Series DD         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 10, 2011         March 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series E, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 7, 2011         November 29, 2011         1.00           Series C, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day  |   |                    |                   |                    |                             |                  |  |
| Series DD         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series FF         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series FE         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series C, D, J, Tand X         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         November 29, 2011         1.00           Series A to FF         December 6, 2011         January 3, 2012         January 19, 2012         0.0027/day           Cumulative Non-Convertible           Redeemable Preferred Stock         Series N*         January 25, 2011         February 18, 2011         March 15, 2011         -           May 10, 2011         May 27, 2011         June 15, 2011         -         -         -  |   |                    |                   |                    |                             |                  |  |
| Series FF         January 25, 2011         February 10, 2011         February 28, 2011         1.00           Series GG         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series GG         January 25, 2011         April 28, 2011         March 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         August 3, 2011         August 31, 2011         1.00           Series E, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 7, 2011         November 3, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible           Redeemable Preferred Stock         Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           May 10, 2011         May 27, 2011         June 15, 2011         -         -         -  |   | January 25, 2011   |                   |                    |                             | 17               |  |
| Series GG         January 25, 2011         February 24, 2011         March 31, 2011         1.00           Series EE         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series HH         March 29, 2011         August 3, 2011         August 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 7, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible           Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           May 10, 2011         May 27, 2011         June 15, 2011         -         -           November 3, 2011         November 18, 2011         December 15, 2011         -           November 3,   |   |                    |                   |                    |                             | 3                |  |
| Series EE         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series A, I, R, W, AA and BB         July 5, 2011         August 3, 2011         May 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 7, 2011         October 7, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A, L, M and Y         December 6, 2011         December 10, 2011         January 19, 2012         0.0027/day           Final Dividends         Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible         Redeemable Preferred Stock         Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           August 2, 2011         May 10, 2011         May 27, 2011         June 15, 2011         -  |   |                    |                   |                    |                             | -                |  |
| Series HH         March 29, 2011         April 28, 2011         May 31, 2011         1.00           Series A, I, R, W, AA and BB         July 5, 2011         August 3, 2011         August 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series B, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 70, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         0.0027/day           Final Dividends           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible           Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           August 2, 2011         August 18, 2011         September 15, 2011         -         -           November 3, 2011         Nov  | Series GG   | January 25, 2011   | February 24, 2011 | March 31, 2011     | 1.00                        | -                |  |
| Series A, I, R, W, AA and BB         July 5, 2011         August 3, 2011         August 31, 2011         1.00           Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series E, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series E, K, O and U         September 20, 2011         October 7, 2011         November 39, 2011         1.00           Series G, D, J, T and X         September 20, 2011         October 7, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible           Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           August 2, 2011         August 18, 2011         March 15, 2011         -         -           November 3, 2011         November 18, 2011         December 15, 2011         -         -           November 3, 2011         November 18, 2011         December 15, 2011   | Series EE   | March 29, 2011     | April 28, 2011    | May 31, 2011       | 1.00                        | -                |  |
| Series B, F, Q, V and Z         August 2, 2011         September 1, 2011         September 30, 2011         1.00           Series E, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series G, D, J, T and X         September 20, 2011         October 7, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series H, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         1.00  | Series HH   | March 29, 2011     | April 28, 2011    | May 31, 2011       | 1.00                        | -                |  |
| Series E, K, O and U         September 20, 2011         October 7, 2011         October 31, 2011         1.00           Series C, D, J, T and X         September 20, 2011         October 20, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series H, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         1.00           Final Dividends         Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible         Redeemable Preferred Stock         Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           May 10, 2011         May 27, 2011         June 15, 2011         -         -         -           November 3, 2011         November 18, 2011         December 15, 2011         -         -         -           May 10, 2011         November 18, 2011         December 15, 2011         -         -         -         -           May 10, 2011         November 18, 2011         December 15, 2011 <td< td=""><td>Series A, I, R, W, AA and BB</td><td>July 5, 2011</td><td>August 3, 2011</td><td>August 31, 2011</td><td>1.00</td><td>128</td></td<> | Series A, I, R, W, AA and BB                                  | July 5, 2011       | August 3, 2011    | August 31, 2011    | 1.00                        | 128              |  |
| Series C, D, J, T and X         September 20, 2011         October 20, 2011         November 29, 2011         1.00           Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series H, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         1.00           Final Dividends         Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible         Redeemable Preferred Stock         Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         -           May 10, 2011         May 27, 2011         June 15, 2011         -         -           November 3, 2011         November 18, 2011         December 15, 2011         -           August 2, 2011         November 18, 2011         December 15, 2011         -           November 3, 2011         November 18, 2011         December 15, 2011         -           Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   | Series B, F, Q, V and Z                                       | August 2, 2011     | September 1, 2011 | September 30, 2011 | 1.00                        | 91               |  |
| Series G, N, P and S         November 3, 2011         December 1, 2011         December 29, 2011         1.00           Series H, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         1.00           Final Dividends         Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible<br>Redeemable Preferred Stock         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   | Series E, K, O and U  | September 20, 2011 | October 7, 2011   | October 31, 2011   | 1.00                        | 44               |  |
| Series H, L, M and Y         December 6, 2011         January 3, 2012         January 19, 2012         1.00           Final Dividends   | Series C, D, J, T and X                                       | September 20, 2011 | October 20, 2011  | November 29, 2011  | 1.00                        | 57               |  |
| Final Dividends   | Series G, N, P and S  | November 3, 2011   | December 1, 2011  | December 29, 2011  | 1.00                        | 26               |  |
| Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible<br>Redeemable Preferred Stock<br>Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock<br>Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         1-  | Series H, L, M and Y  | December 6, 2011   | January 3, 2012   | January 19, 2012   | 1.00                        | 42               |  |
| Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible<br>Redeemable Preferred Stock<br>Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock<br>Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14  |   |                    |                   |                    |                             | 408              |  |
| Series A to FF         December 6, 2011         October 10, 2011         January 19, 2012         0.0027/day           Cumulative Non-Convertible<br>Redeemable Preferred Stock<br>Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock<br>Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14  |   |                    |                   |                    |                             |                  |  |
| Cumulative Non-Convertible<br>Redeemable Preferred Stock<br>Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock<br>Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   | inal Dividends  |                    |                   |                    |                             |                  |  |
| Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         1-   | Series A to FF  | December 6, 2011   | October 10, 2011  | January 19, 2012   | 0.0027/day                  | 142              |  |
| Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         1-   |   |                    |                   |                    |                             | 550              |  |
| Redeemable Preferred Stock           Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         1-   | umulativa Nan Canvartibla                                     |                    |                   |                    |                             |                  |  |
| Series IV*         January 25, 2011         February 18, 2011         March 15, 2011         –           May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14  |   |                    |                   |                    |                             |                  |  |
| May 10, 2011         May 27, 2011         June 15, 2011         –           August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   |   | Jonuon (25, 2011   | Eabruan 19 2011   | March 15, 2011     |                             | 12               |  |
| August 2, 2011         August 18, 2011         September 15, 2011         –           November 3, 2011         November 18, 2011         December 15, 2011         –           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -           -         -         -         -         -         -           -         -         -         -         -         -         -           -         -         -         -         -         -         -         -           -         -  | Series IV   |                    |                   |                    | =                           | 12               |  |
| November 3, 2011         November 18, 2011         December 15, 2011         -           Common Stock         Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   |   |                    |                   |                    | =                           | 12               |  |
| Common Stock<br>Regular Dividend March 1, 2011 March 16, 2011 April 19, 2011 78.00 14   |   |                    |                   |                    | =                           | 13               |  |
| Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   |   | November 3, 2011   | November 16, 2011 | December 15, 2011  | _                           | 49               |  |
| Regular Dividend         March 1, 2011         March 16, 2011         April 19, 2011         78.00         14   |   |                    |                   |                    |                             | 49               |  |
|   | Common Stock  |                    |                   |                    |                             |                  |  |
| August 2, 2011 August 31, 2011 September 27, 2011 78.00 14  | Regular Dividend  | March 1, 2011      | March 16, 2011    | April 19, 2011     | 78.00                       | 14,567           |  |
|   |   | August 2, 2011     | August 31, 2011   | September 27, 2011 | 78.00                       | 14,567           |  |
| Special Dividend March 1, 2011 March 16, 2011 April 19, 2011 66.00 12   | Special Dividend  | March 1, 2011      | March 16, 2011    | April 19, 2011     | 66.00                       | 12,326           |  |
| 4   |   |                    |                   |                    |                             | 41,460           |  |
| Charged to retained earnings 42   | Charged to retained earnings                                  |                    |                   |                    |                             | 42,059           |  |

\* Dividends were declared based on total amount paid up.

# December 31, 2010

|   |   | Date  | Amount   |                                    |  |
|---|---|---|--|------------------------------------|--|
| Class   | Approved  | Record  | Payable  | Per Share                          | Total                                    |
|   |   |   |  | (in million pesos, except p        | er share amount                          |
| 0% Cumulative Convertible Preferred           |   |   |  |                                    |  |
| Stock   |   |   |  |                                    | . –                                      |
| Series CC                                     | January 26, 2010  | February 25, 2010   | March 31, 2010   | 1.00                               | 17                                       |
| Series DD                                     | January 26, 2010  | February 11, 2010   | February 26, 2010  | 1.00                               | 3  |
| Series EE                                     | March 26, 2010  | April 23, 2010  | May 31, 2010   | 1.00                               | -  |
| Series A, I, R, W, AA and BB                  | July 7, 2010  | August 5, 2010  | August 31, 2010  | 1.00                               | 128                                      |
| Series B, F, Q, V and Z                       | August 3, 2010  | September 2, 2010   | September 30, 2010   | 1.00                               | 92                                       |
| Series E, K, O and U                          | August 31, 2010   | September 30, 2010  | October 29, 2010   | 1.00                               | 44                                       |
| Series C, D, J, T and X                       | September 28, 2010  | October 28, 2010  | November 30, 2010  | 1.00                               | 57                                       |
| Series G, N, P and S                          | November 4, 2010  | December 2, 2010  | December 29, 2010  | 1.00                               | 26                                       |
| Series H, L, M and Y                          | December 7, 2010  | January 4, 2011   | January 31, 2011   | 1.00                               | 42                                       |
|   |   |   |  |                                    | 409                                      |
|   |   |   |  |                                    |  |
| umulative Non-Convertible                     |   |   |  |                                    |  |
|   |   |   |  |                                    |  |
| Redeemable Preferred Stock                    |   |   |  |                                    | 10                                       |
| Redeemable Preferred Stock<br>Series IV*      | January 26, 2010  | February 19, 2010   | March 15, 2010   | _                                  | 12                                       |
|   | May 13, 2010  | May 27, 2010  | June 15, 2010  | -<br>-                             | 13                                       |
|   | May 13, 2010<br>August 3, 2010  | May 27, 2010<br>August 18, 2010   | June 15, 2010<br>September 15, 2010  | -<br>-<br>-                        | 13<br>12                                 |
|   | May 13, 2010  | May 27, 2010  | June 15, 2010  |                                    | 13<br>12<br>12                           |
|   | May 13, 2010<br>August 3, 2010  | May 27, 2010<br>August 18, 2010   | June 15, 2010<br>September 15, 2010  |                                    | 13<br>12                                 |
|   | May 13, 2010<br>August 3, 2010  | May 27, 2010<br>August 18, 2010   | June 15, 2010<br>September 15, 2010  |                                    | 13<br>12<br>12                           |
| Series IV*                                    | May 13, 2010<br>August 3, 2010  | May 27, 2010<br>August 18, 2010   | June 15, 2010<br>September 15, 2010  | 76.00                              | 13<br>12<br>12                           |
| Series IV*                                    | May 13, 2010<br>August 3, 2010<br>November 4, 2010<br>March 2, 2010                   | May 27, 2010<br>August 18, 2010<br>November 19, 2010<br>March 17, 2010                    | June 15, 2010<br>September 15, 2010<br>December 15, 2010<br>April 20, 2010                       | -<br>-<br>-<br>-<br>76.00<br>78.00 | 13<br>12<br>12<br>49<br>14,197           |
| Series IV*<br>ommon Stock<br>Regular Dividend | May 13, 2010<br>August 3, 2010<br>November 4, 2010<br>March 2, 2010<br>August 3, 2010 | May 27, 2010<br>August 18, 2010<br>November 19, 2010<br>March 17, 2010<br>August 19, 2010 | June 15, 2010<br>September 15, 2010<br>December 15, 2010<br>April 20, 2010<br>September 21, 2010 |                                    | 13<br>12<br>12<br>49<br>14,197<br>14,570 |
| Series IV*                                    | May 13, 2010<br>August 3, 2010<br>November 4, 2010<br>March 2, 2010                   | May 27, 2010<br>August 18, 2010<br>November 19, 2010<br>March 17, 2010                    | June 15, 2010<br>September 15, 2010<br>December 15, 2010<br>April 20, 2010                       | 78.00                              | 13<br>12<br>12<br>49<br>14,197           |

\* Dividends were declared based on total amount paid up.

Our dividends declared after December 31, 2012 are detailed as follows:

|  | Date              |                    |                    | Amount                      |                   |  |
|--|-------------------|--------------------|--------------------|-----------------------------|-------------------|--|
| Class  | Approved          | Record             | Payable            | Per Share                   | Total             |  |
|  |                   |                    |                    | (in million pesos, except p | er share amounts) |  |
| 10% Cumulative Convertible Preferred                     |                   |                    |                    |                             |                   |  |
| Stock  |                   |                    |                    |                             |                   |  |
| Series HH  | April 23, 2013    | May 9, 2013        | May 31, 2013       | 1.00                        | -                 |  |
| Series HH (final)  | April 23, 2013    | February 14, 2013  | May 16, 2013       | 0.0027/ day                 | -                 |  |
| Series II  | April 23, 2013    | May 9, 2013        | May 31, 2013       | 1.00                        |                   |  |
| Cumulative Non-Convertible<br>Redeemable Preferred Stock |                   |                    |                    |                             |                   |  |
|  | January 29, 2013  | February 28, 2013  | March 15, 2013     |                             | 12                |  |
| Series IV*   |                   |                    | June 15, 2013      | =                           | 13                |  |
|  | May 7, 2013       | May 27, 2013       |                    | =                           | 13                |  |
|  | August 7, 0010    | August 00, 0010    | September 15,      |                             | 10                |  |
|  | August 7, 2013    | August 23, 2013    | 2013               | -                           | 12                |  |
|  | November 5, 2013  | November 20, 2013  | December 15, 2013  | -                           | 12<br>49          |  |
|  |                   |                    |                    |                             | 49                |  |
| Voting Preferred Stock*                                  | March 5, 2013     | March 20, 2013     | April 15, 2013     | -                           | 3                 |  |
| 5  | June 14, 2013     | June 28, 2013      | July 15, 2013      | -                           | 3                 |  |
|  | August 27, 2013   | September 11, 2013 | October 15, 2013   | -                           | 2                 |  |
|  | December 3, 2013  | December 19, 2013  | January 15, 2014   | -                           | 2                 |  |
|  | ,                 |                    |                    |                             | 10                |  |
| Common Stock   |                   |                    |                    |                             |                   |  |
| Regular Dividend   | March 5, 2013     | March 19, 2013     | April 18, 2013     | 60.00                       | 12,963            |  |
| nogalar Dividend   | August 7, 2013    | August 30, 2013    | September 27, 2013 | 63.00                       | 13.611            |  |
| Special Dividend   | March 5, 2013     | March 19, 2013     | April 18, 2013     | 52.00                       | 11,235            |  |
| opecial Dividend   | Ividi 011 0, 2010 | ivia:01119, 2013   | April 10, 2013     | 52.00                       | 37.809            |  |
| Observations of a service set                            |                   |                    |                    |                             |                   |  |
| Charged to retained earnings                             |                   |                    |                    |                             | 37,868            |  |

\* Dividends were declared based on total amount paid up.

#### Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our retained earnings available for dividend declaration for as at December 31, 2012:

|   | (in million peso |
|---|------------------|
| Consolidated unappropriated retained earnings as at December 31, 2011 (As Adjusted - Note 2)      | 26,160           |
| Effect of PAS 27 Adjustments  | 5,495            |
| Parent Company's unappropriated retained earnings at beginning of the year                        | 31,655           |
| Less: Cumulative unrealized income – net of tax:  |                  |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)  | (1,679)          |
| Fair value adjustments (mark-to-market gains)   | (4,289)          |
| Fair value adjustments of investment property resulting to gain                                   | (466)            |
| Unappropriated retained earnings as adjusted at beginning of the year                             | 25,221           |
| Parent Company's net income attributable to equity holder of PLDT for the year                    | 33,566           |
| Less: Unrealized income – net of tax during the year  |                  |
| Fair value adjustments of investment property resulting to gain                                   | (80)             |
| Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalent)   | (337)            |
|   | 33,149           |
| Realized income during the year   |                  |
| Realized fair value adjustments (mark-to-market gains)  | 3,157            |
| Realized foreign exchange gains   | 920              |
| Revaluation increment of investment property sold removed from other comprehensive income         | 105              |
| Realized fair value adjustments of investment property  | 11               |
|   | 4,193            |
| Cash dividends declared during the year   |                  |
| Common stocks   | (36,946)         |
| Preferred stocks  | (51)             |
|   | (36,997)         |
| Parent Company's unappropriated retained earnings available for dividends as at December 31, 2012 | 25.566           |

As at December 31, 2012, the consolidated unappropriated retained earnings amounted to Php25,416 million while the Parent Company's unappropriated retained earnings amounted to Php28,329 million. The difference of Php2,913 million pertains to the accumulated losses of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.

#### 20. Interest-bearing Financial Liabilities

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of the following:

|  | Decem   | ıber 31,           | January 1 |  |
|--|---------|--------------------|-----------|--|
|  | 2012    | 2011               | 2011      |  |
|  |         | (in million pesos) |           |  |
| Long-term portion of interest-bearing financial liabilities:       |         |                    |           |  |
| Long-term debt (Notes 4, 5, 9, 23 and 27)                          | 102,811 | 91,273             | 75,879    |  |
| Obligations under finance leases (Notes 3, 4, 5, 23 and 27)        | 10      | 7                  | 9         |  |
| •  | 102,821 | 91,280             | 75,888    |  |
| Current portion of interest-bearing financial liabilities:         |         |                    |           |  |
| Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27) | 12.981  | 22.893             | 13.767    |  |
| Obligations under finance leases maturing within one year          | ,       | ,                  | -, -      |  |
| (Notes 3, 4, 5, 23 and 27)   | 8       | 7                  | 34        |  |
| Notes payable (Notes 4, 5, 23 and 27)                              | -       | 3,109              | -         |  |
|  | 12.989  | 26.009             | 13.801    |  |

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | Decer | December 31,             |       |  |
|--|-------|--------------------------|-------|--|
|  | 2012  | 2011                     | 2011  |  |
|  |       | (in million pesos)       |       |  |
| Long-term debt (Note 27)                     | 1,323 | 2,136                    | 2,944 |  |
| Obligation under finance lease               | 3     | 2                        | 1     |  |
| Unamortized debt discount at end of the year | 1,326 | <b>1,326</b> 2,138 2,945 |       |  |

The following table describes all changes to unamortized debt discount for the years ended December 31, 2012 and 2011.

|   | 2012       | 2011     |
|---|------------|----------|
|   | (in millio | n pesos) |
| Unamortized debt discount at beginning of the year  | 2,138      | 2,945    |
| Additions during the year   | 124        | 43       |
| Revaluations during the year  | 118        | 187      |
| Discontinued operations (Note 2)  | (1)        | -        |
| Accretion during the year included as part of Financing costs – net Accretion on financial liabilities (Note 5) | (1,053)    | (1,037)  |
| Unamortized debt discount at end of the year  | 1,326      | 2,138    |

# Long-term Debt

As at December 31, 2012 and 2011, and January 1, 2011, long-term debt consists of:

|  | -  |            | Decem           | ber 31,    |                  | Janua     | January 1,    |  |
|--|--|------------|-----------------|------------|------------------|-----------|---------------|--|
| Description  | Interest Rates   | 2012       |                 | 2          | 2011             |           | 2011          |  |
| U.S. Dollar Debts:<br>Export Credit Agencies-Supported                     |  |            |                 | (in n      | nillions)        |           |               |  |
| Loans:<br>China Export and Credit<br>Insurance Corporation, or<br>Sinosure | US\$ LIBOR + 0.55% to<br>1.80% in 2012 and 2011  | US\$204    | Php8,363        | US\$248    | Php10,879        | US\$-     | Php-          |  |
| Exportkreditnamnden, or EKN  | 1.90% to 3.79% and US\$<br>LIBOR + 0.30% to 0.35% in<br>2012 and 3.79% and US\$<br>LIBOR + 0.30% to 0.35% in<br>2011   | 104        | 4,253           | 102        | 4,483            | 14        | 613           |  |
| EKN and AB Svensk<br>Exportkredit,<br>or SEK                               | 3.9550% in 2012 and 2011   | 67         | 2,771           | 79         | 3,475            | -         | -             |  |
| Finnvera, Plc, or Finnvera   | 2.99% and US\$ LIBOR +<br>1.35% in 2012 and 2011   | 44         | 1,813           | 63         | 2,775            | 82        | 3,590         |  |
| Others   | US\$ LIBOR + 0.35% to<br>0.40% in 2012 and 2011  | 2          | 101             | 6          | 256              | -         | -             |  |
| Fixed Rate Notes   | 8.35% to 11.375% in 2012 and 2011  | 421<br>232 | 17,301<br>9,544 | 498<br>377 | 21,868<br>16,567 | 96<br>375 | 4,20<br>16,45 |  |
| Term Loans:<br>Debt Exchange Facility                                      | 2.25% in 2012 and 2011   | 254        | 10,450          | 238        | 10,472           | 223       | 9,79          |  |
| GSM Network Expansion Facilities   | SUS\$ LIBOR + 0.42% to<br>1.85% in 2012 and 4.70%<br>and US\$ LIBOR + 0.42% to<br>1.85% in 2011  | 172        | 7,041           | 50         | 2,201            | 97        | 4,23          |  |
| Others   | US\$ LIBOR + 0.42% to<br>1.90% in 2012 and 2.79%<br>+ swap rate and US\$<br>LIBOR + 0.42% to 0.50% in<br>2011  | 194        | 7,962           | 51         | 2,222            | 85        | 3,74          |  |
|  |  | US\$1,273  | 52,298          | US\$1,214  | 53,330           | US\$876   | 38,41         |  |
| Philippine Peso Debts:<br>Corporate Notes                                  | 5.3300% to 9.1038% in 2012<br>and 5.4692% to 9.1038%<br>and PDST-F + 1.25% in  |            | 40,006          |            | 38,510           |           | 29,67         |  |
| Term Loans:  | 2011   |            |                 |            |                  |           |               |  |
| Unsecured Term Loans   | 4.9110% to 8.6271%, PDST-<br>F + 0.30% and BSP<br>overnight rate + 0.30% to<br>0.50% in 2012 and<br>5.8308% to 8.6271%,<br>PDST-F + 0.30% and BSP<br>overnight rate + 0.30% to |            | 23,488          |            | 22,277           |           | 21,43         |  |
| Secured Term Loans   | 0.50% in 2011<br>5.2604% to 5.659%, PDST-F<br>+ 1.375% in 2012 and<br>PDST-F + 1.375% and<br>AUB's prime rate in 2011  |            | -               |            | 49               |           | 110           |  |
|  | •  |            | 63,494          |            | 60,836           |           | 51,232        |  |
| Total long-term debt<br>Less portion maturing within one year              |  |            | 115,792         |            | 114,166          |           | 89,646        |  |
| (Note 27)  |  |            | 12,981          |            | 22,893           |           | 13,767        |  |

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at December 31, 2012 are as follows:

|                  | U.S. Doll      | ar Debt | Php Debt | Total   |
|------------------|----------------|---------|----------|---------|
| Year             | In U.S. Dollar | In Php  | In Php   | In Php  |
|                  |                | (in mil | lions)   |         |
| 2013             | 221            | 9,065   | 3,999    | 13,064  |
| 2014             | 460            | 18,885  | 1,575    | 20,460  |
| 2015             | 150            | 6,168   | 5,417    | 11,585  |
| 2016             | 134            | 5,514   | 15,384   | 20,898  |
| 2017 and onwards | 339            | 13,943  | 37,165   | 51,108  |
|                  | 1.304          | 53.575  | 63,540   | 117,115 |

## U.S. Dollar Debts:

#### Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

#### Sinosure

On December 1, 2005, DMPI signed a US\$23.6 million Export Credit Agreement with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders, to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR. The loan is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 1, 2013. The loan was fully drawn on various dates in 2005, 2006 and 2007. The amounts of US\$3 million, or Php138 million, and US\$7 million, or Php296 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On May 4, 2006, DMPI signed a US\$12.7 million Export Credit Agreement with the Societe Generale and Calyon as the lenders, to finance the supply of the equipment and software for the expansion of its GSM services in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on October 6, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amounts of US\$4 million, or Php143 million, and US\$5 million, or Php229 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On June 1, 2006, DMPI signed a US\$12 million Buyer's Credit Agreement with ING Bank N.V., or ING Bank, as the lender, to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semiannual installments, with final installment on June 1, 2014. The loan was drawn in 2006 and 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amounts of US\$2 million, or Php86 million, and US\$4 million, or Php153 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On May 24, 2007, DMPI signed a US\$21 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$7 million, or Php305 million, and US\$10 million, or Php457 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On May 24, 2007, DMPI signed a US\$12.1 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 NCR Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was fully drawn on various dates in 2008. The amounts of US\$4 million, or Php178 million, and US\$6 million, or Php266 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On November 10, 2008, DMPI signed a US\$23.8 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Core Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$14 million, or Php558 million, and US\$17 million, or Php746 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On November 10, 2008, DMPI signed a US\$5.5 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the supply of 3G network in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$3 million, or Php129 million, and US\$4 million, or Php172 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On November 10, 2008, DMPI signed a US\$4.9 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$3 million, or Php116 million, and US\$4 million, or Php155 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On August 14, 2009, DMPI signed a US\$24.7 million loan agreement with Credit Suisse as the lead arranger, to finance the supply of telephone equipment for the Phase 7 NCR Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was fully drawn on various dates in 2009 and 2010. The amounts of US\$18 million, or Php725 million, and US\$21 million, or Php930 million, remained outstanding as at December 31, 2012 and 2011, respectively. The facility was paid in full on February 14, 2013.

On August 14, 2009, DMPI signed a US\$15.9 million loan agreement with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender, to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The amounts of US\$11 million, or Php453 million, and US\$13 million, or Php581 million, remained outstanding as at December 31, 2012 and 2011, respectively. The facility was paid in full on February 14, 2013.

On December 16, 2009, DMPI signed a US\$50 million Buyer's Credit Agreement with China Citic Bank Corporation Ltd., or China CITIC Bank, as the original lender, to finance the equipment and related materials for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 17, 2017. The loan was drawn on various dates in 2010 in the total amount of US\$48 million. The undrawn amount of US\$2 million was cancelled. On December 9, 2011, China CITIC Bank and ING Bank signed a Transfer Certificate and Assignment of Guarantee whereby ING Bank took over the debt under the Buyers Credit Agreement. The assignment of debt was completed on December 16, 2011. The amounts of US\$34 million, or Php1,392 million, and US\$41 million, or Php1,786 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On September 15, 2010, DMPI signed a US\$117.3 million loan agreement with China Development Bank and HSBC as the lenders, to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN; (2) Phase 3 3G; and (3) Phase 8B NCR and SLZ BSS. The loan is covered by a guarantee from Sinosure. The loan is payable over seven and a half years in 15 equal semi-annual installments, with final installment on April 10, 2019. The loan was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amounts of US\$101 million, or Php4,140 million, and US\$116 million, or Php5,108 million, remained outstanding as at December 31, 2012 and 2011, respectively. The amount of US\$20 million was partially prepaid on April 10, 2013.

#### EKN

On April 4, 2006, DMPI signed a US\$18.7 million loan agreement with Nordea Bank AB (publ), or Nordea Bank, as the lender, to finance the supply of GSM mobile telephone equipment and related services. The loan is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semiannual installments, with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amounts of US\$5 million, or Php220 million, and US\$7 million, or Php329 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On December 20, 2006, DMPI signed a US\$43.2 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 30, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amounts of US\$10 million, or Php393 million, and US\$16 million, or Php700 million, remained outstanding as at December 31, 2012 and 2011, respectively.

On December 17, 2007, DMPI signed a US\$59.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on March 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$59 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$31 million, or Php1,248 million, and US\$38 million, or Php1,631 million, remained outstanding as at December 31, 2012 and 2011, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On December 17, 2007, DMPI signed a US\$51.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on June 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$51.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$26 million, or Php1,084 million, and US\$32 million, or Php1,416 million, remained outstanding as at December 31, 2012 and 2011, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On November 25, 2008, Smart signed a US\$22 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008, to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 10, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$5 million, or Php195 million, US\$9 million, or Php414 million, and US\$14 million, or Php613 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

On June 10, 2011, Smart signed a US\$49 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranche A1, Tranche A2 and Tranche B in the amounts of US\$24 million, US\$24 million and US\$1 million, respectively. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 29, 2016 for Tranche A1 and B and October 30, 2017 for Tranche A2. The loan was drawn on various dates in 2012 in the total amount of US\$33 million (US\$24 million for Tranche A1, US\$8 million for Tranche A2 and US\$1 million for Tranche B) and the remaining balance of US\$16 million for Tranche A2 was drawn on February 21, 2013. The aggregate amount of US\$27 million, or Php1,113 million, net of unamortized debt discount, remained outstanding as at December 31, 2012.

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

## EKN and SEK

On April 28, 2009, DMPI signed a US\$96.6 million loan agreement with Nordea Bank and ING Bank as the lenders, to finance the supply of GSM mobile telephone equipment and related services. The loan is comprised of Tranche 1 and Tranche 2 in the amounts of US\$43 million and US\$53.6 million, respectively. The loan is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. Both tranches are payable over eight and a half years in 17 equal semi-annual installments, with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amounts of US\$67 million, or Php2,771 million, and US\$79 million, or Php3,475 million, remained outstanding as at December 31, 2012 and 2011, respectively.

#### Finnvera, Plc, or Finnvera

On May 14, 2009, Smart signed a US\$50 million term loan facility agreement with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger, to finance the Phase 10 (Extension) GSM equipment and services contract. The loan is payable over five years in ten equal semi-annual installments, with final installment on July 15, 2014. The loan was fully drawn on July 15, 2009. The amounts of US\$20 million, or Php811 million, US\$29 million, or Php1,290 million, and US\$39 million, or Php1,703 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

On October 9, 2009, Smart signed a US\$50 million term loan facility agreement with FEC guaranteed by Finnvera for 100% political and commercial risk cover to finance GSM equipment and services contracts. The loan was awarded to Citicorp as the arranger which was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual installments, with final installment on April 7, 2015. The loan was fully drawn on April 7, 2010. The amounts of US\$24 million, or Php1,002 million, US\$34 million, or Php1,485 million, and US\$43 million, or Php1,887 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

#### Others – Export Credit Agencies

Compagnie Francaise d'Assurance pour le Commerce Exterieur, or COFACE

On August 18, 2005, DMPI signed a US\$19 million Export Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project. The loan is covered by a guarantee from COFACE, the export-credit agency of France. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on February 8, 2013. The loan was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The amounts of US\$1 million, or Php53 million, and US\$4 million, or Php171 million, remained outstanding as at December 31, 2012 and 2011, respectively.

#### Atradius N.V., or Atradius

On July 3, 2006, DMPI signed a US\$6 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network. The loan is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 27, 2014. The loan was drawn in 2006 and 2007 in the total amount of US\$5.4 million. The undrawn amount of US\$0.6 million was cancelled. The amounts of US\$1 million, or Php48 million, and US\$2 million, or Php85 million, remained outstanding as at December 31, 2012 and 2011, respectively.

#### Fixed Rate Notes

On March 6, 1997, PLDT issued a US\$300 million 20-year non-amortizing fixed rate note with a coupon rate of 8.350% under the Indenture dated April 19, 1996 between PLDT and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) as trustee ("2017 Notes"). Proceeds from the issuance of these notes were used to finance service improvements and expansion programs. The 2017 Notes will mature on March 6, 2017. On various dates in 2008 to 2010, PLDT repurchased the 2017 Notes from the secondary market in the aggregate amount of US\$65.7 million. The amounts of US\$232 million, or Php9,544 million, US\$232 million, or Php10,189 million, and US\$231 million, or Php10,149 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On May 15, 2002, PLDT issued a US\$250 million ten-year non-amortizing fixed rate note with a coupon rate of 11.375% under the Indenture dated April 1, 1994 between PLDT and JP Morgan Chase Bank (formerly The Chase Manhattan Bank (National Association)) as trustee ("2012 Notes"). Proceeds from the issuance of these notes were used to refinance existing short-term and medium-term debts maturing up to 2005. On various dates in 2008 and 2009, PLDT repurchased the 2012 Notes from the secondary market in the aggregate amount of US\$104.2 million. The amounts of US\$145 million, or Php6,378 million, and US\$144 million, or Php6,301 million, remained outstanding as at December 31, 2011 and January 1, 2011, respectively. The 2012 Notes was paid in full on maturity date on May 15, 2012. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

## <u>Term Loans</u>

#### US\$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for debt and a cash payment by Smart. In particular, Smart paid cash amounting to US\$1.5 million, or Php84 million and issued new debt of US\$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million. The loan is payable in full upon maturity on June 30, 2014. The amounts of US\$254 million, or Php10,450 million, US\$238 million, or Php10,472 million, and US\$223 million, or Php9,791 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was prepaid in full on September 27 and September 30, 2013 and the remaining debt discount of US\$13 million, or Php731 million, was amortized in full in September 2013.

#### GSM Network Expansion Facilities

On August 8, 2005, Smart signed a US\$30 million commercial loan facility agreement with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The loan was payable over five years in ten equal semi-annual installments, with final installment on July 11, 2011. The loan was fully drawn on July 11, 2006. The amount of US\$6 million, or Php263 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The loan was paid in full on July 11, 2011.

On July 31, 2006, Smart signed a US\$44 million term loan facility agreement with FEC as the lender, to partly finance the related Phase 9 GSM equipment and services contracts. The laon was arranged by ABN AMRO Bank N.V., Standard Chartered Bank (Hong Kong) Ltd., Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. The loan was payable over five years in ten equal semi-annual installments, with final installment on July 15, 2011. The loan was drawn on November 10, 2006. The amount of US\$9 million, or Php387 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The loan was paid in full on July 15, 2011.

On October 16, 2006, Smart signed a US\$50 million term loan facility agreement with Metropolitan Bank and Trust Company, or Metrobank, to finance the related Phase 9 GSM facility. The loan is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date, with final installment on October 10, 2012. The loan was fully drawn on October 10, 2007. The amounts of US\$11 million, or Php988 million, and US\$22 million, or Php973 million, remained outstanding as at December 31, 2011 and January 1, 2011, respectively. The loan was paid in full on October 10, 2012.

On October 10, 2007, Smart signed a US\$50 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd., or Standard Chartered, as the facility agent, to finance the related Phase 10 GSM equipment and service contracts. The loan is payable over five years in ten equal semi-annual payments, with final installment on March 11, 2013. The loan was fully drawn on March 10, 2008. The amounts of US\$5 million, or Php205 million, US\$15 million, or Php657 million, and US\$25 million, or Php1,091 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was paid in full on March 11, 2013.

On November 27, 2008, Smart signed a US\$50 million term loan facility agreement with FEC to finance the Phase 10 GSM equipment and service contracts. The loan was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered, Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments, with final installment on January 23, 2014. The loan was fully drawn on various dates in 2009. The amounts of US\$15 million, or Php614 million, US\$25 million, or Php1,090 million, and US\$35 million, or Php1,516 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

On June 6, 2011, Smart signed a US\$60 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in eight equal semi-annual installments commencing on the 18th month from signing date, with final installment on June 6, 2016. The loan was fully drawn on various dates in 2012. The amount of US\$53 million, or Php2,157 million, remained outstanding as at December 31, 2012. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On August 19, 2011, Smart signed a US\$50 million term loan facility agreement with FEC as the lender, to finance the supply contracts for the modernization and expansion project. The loan was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC and Mizuho Corporate Bank, Ltd. The loan is payable over five years in ten equal semiannual installments commencing six months after August 19, 2012, with final installment on August 19, 2016. The loan was fully drawn on various dates in 2012. The amount of US\$50 million, or Php2,040 million, net of unamortized debt discount, remained outstanding as at December 31, 2012. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

On May 29, 2012, Smart signed a US\$50 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing on May 29, 2013, with final installment on May 29, 2017. The loan was fully drawn on various dates in 2012. The amount of US\$49 million, or Php2,025 million, net of unamortized debt discount, remained outstanding as at December 31, 2012. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

## Other Term Loans

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for its capital expenditure requirements. The loan is payable over five years in ten equal semi-annual installments. Two separate drawdowns of US\$50 million each were drawn from the facility on March 27, 2008 and April 10, 2008. The amounts of US\$10 million, or Php411 million, US\$30 million, or Php1,318 million, and US\$50 million, or Php2,191 million, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was paid in full on March 27, 2013.

On July 15, 2008, PLDT signed a US\$50 million term loan facility agreement with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on July 22, 2013. The loan was fully drawn on various dates in 2008. The amounts of US\$9 million, or Php362 million, US\$21 million, or Php904 million, and US\$32 million, or Php1,417 million, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was paid in full on July 22, 2013.

On September 24, 2008, BOW signed a US\$19 million Islamic Ioan facility agreement with the Bank of London and the Middle East. The Ioan matured on various dates from June 30, 2013 to September 30, 2014. The amount of US\$3 million, or Php132 million, remained outstanding as at January 1, 2011. BOW was deconsolidated from the Smart Group in June 2011.

On March 7, 2012, PLDT signed a US\$150 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017. Two separate drawdowns of US\$100 million and US\$50 million were drawn on May 10, 2012 and September 4, 2012, respectively. The amount of US\$150 million, or Php6,162 million, remained outstanding as at December 31, 2012.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date, with final installment on May 30, 2017. The loan was fully drawn on May 29, 2012. The amount of US\$25 million, or Php1,027 million, remained outstanding as at December 31, 2012.

On March 23, 2012, SPi signed a US\$15 million term loan facility agreement with Security Bank to finance working capital requirements. The loan is payable over five years in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The loan was fully drawn on March 26, 2012. The amounts of US\$13 million, or Php551 million, has been presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale as at December 31, 2012. The loan was prepaid in full on April 24, 2013. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

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

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. The amount of US\$18 million was partially drawn on September 16, 2013 and subsequently, the amount of US\$6 million on November 19, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date, with final installment on May 31, 2018. The loan was fully drawn on September 25, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility will be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date, with final installment on June 20, 2018. The loan was fully drawn on September 25, 2013. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

#### Philippine Peso Debts:

#### Corporate Notes

#### Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes were used to finance the capital expenditures for network improvement and expansion program of Smart. The amounts of Php1,152 million, Php4,963 million and Php4,962 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The Series A note and Series B note were prepaid in full on February 16, 2012 and November 15, 2013, respectively.

## Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued Php5,000 million unsecured fixed rate corporate notes. Proceeds from the issuance of these notes were used primarily to finance the capital expenditures for network upgrade and expansion program of Smart. The notes are payable over five years with an annual amortization rate of 1% of the principal amount on the first year up to the fourth year from issue date and the balance payable upon maturity on December 13, 2013. The amounts of Php4,827 million and Php4,867 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and January 1, 2011, respectively. The facility was prepaid in full on March 12, 2012.

#### Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the issuance of these notes were used to finance capital expenditures of PLDT. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on February 21, 2014. The Series B notes are payable over seven years with an amortization rate of 1% of the issue price on the fifth year and sixth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the ininth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year and sixth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year up to the ninth year from issue date and the balance payable upon maturity on February 20, 2019. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amounts of Php4,952 million and Php4,976 million remained outstanding as at December 31, 2011 and January 1, 2011, respectively. The notes were prepaid in full on November 20, 2012.

## Php3,000 Million Fixed Rate Corporate Notes

On June 29, 2009, Smart signed a Php3,000 million fixed rate corporate notes under a Notes Facility Agreement with BDO Private Bank, Inc., comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. Proceeds from the issuance of these notes were used to the finance capital expenditures for network improvement and expansion program of Smart. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009, while the amount of Php1,000 million of Series B2 notes were drawn on September 1, 2009. The aggregate amount of Php2,997 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The Series A1, B1 and B2 notes were paid in full on January 10, 2011, July 8, 2011 and September 1, 2011, respectively.

#### Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A five-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The Series A notes are payable over five years with an annual amortization rate of 2% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 10, 2015. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on December 12, 2016. The Series C notes are payable in full upon maturity on December 10, 2019. Proceeds from the facility were used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The aggregate amounts of Php6,781 million and Php6,891 million remained outstanding as at and December 31, 2011 and January 1, 2011, respectively. The notes were prepaid in full on December 10, 2012.

## Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The notes are non-amortizing and will mature on July 13, 2015. The amount of Php2,500 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011. The notes were prepaid in full on July 15, 2013.

#### Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network improvement and expansion program of Smart. The notes are non-amortizing and will mature on July 13, 2015. The amounts of Php2,490 million, Php2,487 million and Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The notes were prepaid in full on July 15, 2013.

## Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Php2,000 million Notes Facility Agreement with BDO Private Bank, Inc. comprised of Tranche A amounting to Php1,000 million which was issued on March 16, 2011 and Tranche B amounting to Php1,000 million which was fully drawn and issued in multiple drawdowns of Php250 million each on various dates in 2011. Proceeds from the issuance of these notes were used to finance capital expenditures for network improvement and expansion program of Smart. The notes are payable in full, five years from their respective issue dates. The aggregate amount of Php2,000 million remained outstanding as at December 31, 2012 and 2011.

#### Php5,000 Million Fixed Rate Corporate Notes

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 25, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 26, 2018. The series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 24, 2021. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and 2011, respectively. The notes were prepaid in full on March 25, 2013.

## Php5,000 Million Fixed Rate Corporate Notes

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A five-year notes amounting to Php2,795 million, Series B seven-year notes amounting to Php230 million and Series C ten-year notes amounting to Php1,975 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on November 9, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2011. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and 2011, respectively. The notes were prepaid in full on November 8, 2013.

## Php5,500 Million Fixed Rate Corporate Notes

On March 19, 2012, Smart issued Php5,500 million 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. Proceeds from the issuance of these notes were used primarily for debt refinancing and capital expenditures of Smart. 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, 2022. The aggregate amount of Php5,464 million, net of unamortized debt discount, remained outstanding as at December 31, 2012. The notes were partially prepaid in the amount of Php1,376 million on July 19, 2013.

#### Php1,500 Million Fixed Rate Corporate Notes

On July 27, 2012, PLDT issued Php1,500 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 29, 2019. The amount of Php1,500 million remained outstanding as at December 31, 2012. The notes were partially prepaid in the amount of Php1,188 million on July 29, 2013.

#### Php8,800 Million Fixed Rate Corporate Notes

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated September 19, 2012, comprised of Series A seven-year notes amounting to Php4,610 million and Series B ten-year notes amounting to Php4,190 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. The aggregate amount of Php8,800 million remained outstanding as at December 31, 2012. The notes were partially prepaid in the amount of Php2,055 million on June 21, 2013.

#### Php6,200 Million Fixed Rate Corporate Notes

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issued price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019. The Series B notes are payable over ten-years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022. The aggregate amount of Php6,200 million remained outstanding as at December 31, 2012.

## Php1,376 Million Fixed Rate Corporate Notes

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

#### Php2,055 Million Fixed Rate Corporate Notes

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

# Php1,188 Million Fixed Rate Corporate Notes

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

#### Term Loans

Unsecured Term Loans

#### Php2,500 Million Term Loan Facility

On August 14, 2006, Smart signed a Php2,500 million Philippine Peso term loan facility agreement with Metrobank to finance the related Phase 9 GSM facility. The loan was payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date, with final installment on December 9, 2011. The amount of Php555 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The loan was paid in full on December 9, 2011.

# Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Php2,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on November 13, 2013. The loan was fully drawn in full on November 13, 2008. The amounts of Php624 million, Php1,248 million and Php1,870 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a Php2,400 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,400 million. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 12, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php511 million, Php1,022 million and Php1,533 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a Php3,000 million term loan facility agreement with Union Bank of the Philippines, or Union Bank, to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php3,000 million. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date, with final installment on December 23, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php667 million, Php1,333 million and Php2,000 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a Php2,000 million term loan facility agreement with Philippine National Bank, or PNB, to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The loan was drawn on various dates in 2008 and 2009 in the total amount of Php2,000 million. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on December 19, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php470 million, Php941 million and Php1,412 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a Php2,500 million term loan facility agreement with Banco de Oro Unibank, Inc., or BDO, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The loan was fully drawn on April 17, 2009. The amount of Php2,500 million remained outstanding as at December 31, 2011 and January 1, 2011. The loan was prepaid in full on October 17, 2012.

## Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Php1,500 million term loan facility agreement with BDO to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on May 20, 2012. The loan was fully drawn on May 20, 2009. The amounts of Php1,498 million and Php1,494 million, both net of unamortized debt discount, remained outstanding as at December 31, 2011 and January 1, 2011, respectively. The loan was paid in full on May 20, 2012.

## Php1,000 Million Term Loan Facility

On May 14, 2009, Smart signed a Php1,000 million term loan facility agreement with Asia United Bank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from the date of first drawdown, with final installment on July 3, 2014. The amount of Php997 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The loan was paid in full on January 3, 2011.

## Php1,000 Million Term Loan Facility

On May 15, 2009, Smart signed a Php1,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on July 2, 2016. The amounts of Php996 million, net of unamortized debt discount, remained outstanding as at January 1, 2011. The loan was paid in full on January 3, 2011.

## Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a Php2,500 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The loan was fully drawn on June 28, 2009. The amount of Php2,500 million remained outstanding as at December 31, 2011 and January 1, 2011. The facility was prepaid in full on September 28, 2012.

#### Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a Php1,500 million term loan facility agreement with Allied Banking Corporation to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on September 15, 2010, with final installment on September 15, 2014. The loan was fully drawn on September 15, 2009. The amounts of Php618 million, Php971 million and Php1,324 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively. The loan was prepaid in full on June 17, 2013.

## Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a Php500 million term loan facility agreement with Insular Life Assurance Company, Ltd. to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on July 1, 2016. The loan was fully drawn on July 1, 2009. The amount of Php500 million remained outstanding as at December 31, 2011 and January 1, 2011. The loan was prepaid in full on October 1, 2012.

#### Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Php1,000 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on August 1, 2014. The loan was fully drawn on August 3, 2009. The amounts of Php438 million, Php688 million and Php935 million remained outstanding as at and December 31, 2012 and 2011, and January 1, 2011, respectively.

## Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php941 million, Php1,412 million and Php1,882 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

#### Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a Php1,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009. The amounts of Php471 million, Php706 million and Php941 million remained outstanding as at December 31, 2012 and 2011, and January 1, 2011, respectively.

#### Php1,500 Million Term Loan Facility

On March 15, 2011, Smart signed a Php1,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 22, 2016. The amount of Php1,500 million was fully drawn on March 22, 2011 and remained outstanding as at December 31, 2012 and 2011.

## Php2,000 Million Term Loan Facility

On March 24, 2011, Smart signed a Php2,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is a five-year loan, payable in full upon maturity on March 29, 2016. The loan fully drawn on March 29, 2011. The loan was partially prepaid on December 28, 2012 in the amount of Php200 million. The amounts of Php1,800 million and Php2,000 million remained outstanding as at December 31, 2012 and 2011, respectively.

## Php500 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php500 million term loan facility agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The amount of Php500 million was fully drawn on June 16, 2011 and remained outstanding as at December 31, 2012 and 2011. The loan was prepaid in full on June 17, 2013.

#### Php300 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php300 million term loan facility agreement with the Manulife to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The loan was fully drawn on April 28, 2011. The amount of Php300 million remained outstanding as at December 31, 2012 and 2011. The loan was prepaid in full on July 29, 2013.

#### Php1,000 Million Term Loan Facility

On April 12, 2011, Digitel signed a Php1,000 million term loan facility agreement with Metrobank as the lender, to finance additional capital expenditure requirements. The loan is payable in full upon maturity or on June 23, 2016. The loan was partially drawn on various dates in June 2011 in the aggregate amount of Php710 million and the remaining balance was subsequently drawn on June 21, 2012. The amounts of Php1,000 million and Php710 million remained outstanding as at December 31, 2012 and 2011, respectively. The loan was prepaid in full on September 10, 2013.

#### Php2,000 Million Term Loan Facility

On April 14, 2011, Digitel signed a Php2,000 million five-year term loan facility agreement with BDO as the lender, to finance the capital expenditures and/or refinance existing loan obligations. The loan is payable in full upon maturity on May 26, 2016. The loan was drawn on various dates in 2011 in the total amount of Php1,948 million each and remained outstanding as at December 31, 2012 and 2011. The undrawn amount of Php52 million was cancelled. The loan was prepaid in full on August 27, 2013.

#### Php2,000 Million Term Loan Facility

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over ten years with an annual amortization rate of 1% on the fifth year up to the ninth year from initial drawdown date and the balance payable upon maturity on April 12, 2022. The amount of Php2,000 million was fully drawn on April 12, 2012 and remained outstanding as at December 31, 2012.

#### Php3,000 Million Term Loan Facility

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017. The amount of Php3,000 million was fully drawn on July 18, 2012 and remained outstanding as at December 31, 2012.

## Php2,000 Million Term Loan Facility

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity on June 27, 2017. The amount of Php2,000 million was fully drawn on June 27, 2012 and remained outstanding as at December 31, 2012.

## Php1,000 Million Term Loan Facility

On June 7, 2012, Smart signed a Php1,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over five years with an annual amortization rate of 1% of the principal amount commencing on the first anniversary of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017. The amount of Php1,000 million was fully drawn on August 22, 2012 and remained outstanding as at December 31, 2012.

## Php1,500 Million Term Loan Facility

On June 27, 2012, DMPI signed a Php1,500 million term loan facility agreement with BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The loan is payable over seven years with an annual amortization rate of 1% of the outstanding principal amount on the first year up to the sixth year and the balance payable on June 2019. The amount of Php700 million was partially drawn on June 29, 2012 and the remaining balance of Php800 million was subsequently drawn on September 24, 2012. The amount of Php1,500 million remained outstanding as at December 31, 2012.

#### Php200 Million Term Loan Facility

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on October 9, 2019. The amount of Php200 million was fully drawn on October 9, 2012 and remained outstanding as at December 31, 2012.

# Php1,000 Million Term Loan Facility

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance PLDT's existing loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on June 13, 2020. The facility was fully drawn on January 11, 2013.

#### Php1,000 Million Term Loan Facility

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance to refinance existing loan obligations, the proceeds of which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on December 5, 2022. The amount of Php1,000 million was fully drawn on December 3, 2012 and remained outstanding as at December 31, 2012.

#### Php3,000 Million Term Loan Facility

On December 17, 2012, Smart signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019. The amount of Php1,000 million was partially drawn on December 20, 2012 and the remaining balance of Php2,000 million was subsequently drawn on March 15, 2013. The amount of Php1,000 million remained outstanding as at December 31, 2012.

#### Secured Term Loans

## Php150 Million Term Loan Facility

On June 7, 2007, AGS obtained a Php150 million medium term loan facility agreement with BPI, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. AGS is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. AGS and the bank has agreed to the following terms: (a) pledge of AGS's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of AGS. The outstanding principal balances of the loan amounting to Php49 million and Php116 million as at December 31, 2011 and January 1, 2011, respectively, was paid in full on June 30, 2012.

#### Php2,000 Million Term Loan Facility

On November 13, 2013, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations. The loan is payable over seven years in six annual amortization rate of 1% of the total amount drawn with final installment on November 22, 2020. The amount of Php1,000 million was partially drawn on November 22, 2013.

## Php3,000 Million Term Loan Facility

On November 25, 2013, Smart signed a Php3,000 million term loan facility agreement with Metrobank to refinance existing loan obligations of Smart. The loan is payable over seven years in six annual amortization rate of 10% of the total amount drawn with final installment on November 27, 2020. The amount of Php3,000 million was fully drawn on November 29, 2013.

## Notes Payable

#### Vendor Financing

On January 5, 2006, DMPI issued a US\$1.3 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on February 22, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at December 31, 2011 was paid in full on February 22, 2012.

On January 5, 2006, DMPI issued a US\$1.2 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on June 28, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at December 31, 2011 was paid in full on June 28, 2012.

The aggregate outstanding balance of trust receipts amounted to Php1,562 million as at December 31, 2011. The trust receipts of DMPI and DTPI have been fully paid as at December 31, 2012.

On April 1, 2011, SPi availed US\$9 million and US\$16 million short-term loans from BPI and Security Bank, respectively. The additional loan of US\$10 million was availed last October 28, 2011 from Security Bank. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month with final installment on December 18, 2012. The loans were prepaid on various dates in 2012 in the aggregate amount of US\$31.5 million. The aggregate amounts of US\$3.5 million, or Php144 million, and US\$35 million, or Php1,537 million, remained outstanding as at December 31, 2012 and 2011, respectively. The remaining balance of US\$3.5 million, or Php144 million, was fully paid in February 2013. The December 31, 2012 outstanding balance was presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

#### Debt Covenants

Our 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.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 45%, 47% and 43% of PLDT's total consolidated debts as at December 31, 2012 and 2011, and January 1, 2011, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso. See *Note 27 – Financial Assets and Liabilities – Foreign Currency Exchange Risk.* 

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; (e) merging or consolidating with any other company; (f) entering into transactions with stockholders and affiliates; and (g) entering into sale and leaseback transactions.

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.

PLDT's debt instruments and guarantees for DMPI loans, as discussed in *Note 13 – Business Combinations and Acquisition of Noncontrolling Interests – PLDT's Acquisition of Digitel,* also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. Previously, Smart was required to comply with certain consolidated debt to consolidated equity ratio under Variable Loan Agreement 2014 debt with Marubeni Corporation as original lender and under the 2014 (A) Debt under Metrobank as Facility Agent. On August 16, 2012 and September 3, 2012, the approvals to amend the covenant from "the ratio of Consolidated Debt to Consolidated Equity" to "the ratio of Consolidated Debt to Consolidated EBITDA" were obtained. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and crossaccelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

DMPI's debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due under the loans, including: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if DMPI or PLDT, as guarantor, is in default under another loan agreement; (b) failure by PLDT to comply with certain financial ratio covenants; (c) occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs DMPI's and PLDT's ability to perform its obligations under its loan agreements; (d) change of control; and (e) other typical events of default including the commencement of bankruptcy, insolvency, liquidation, or winding up proceedings by DMPI.

As at December 31, 2012 and 2011, and January 1, 2011, we were in compliance with all of our debt covenants.

## **Obligations Under Finance Leases**

The consolidated future minimum payments for finance leases as at December 31, 2012 are as follows:

| Year  | (in million pesos) |
|---|--------------------|
| 2013  | 11                 |
| 2014  | 5                  |
| 2015  | 4                  |
| 2016 and onwards  | 1                  |
| Total minimum finance lease payments (Note 27)                                  | 21                 |
| Less amount representing unamortized interest                                   | 3                  |
| Present value of net minimum finance lease payments (Notes 2, 3 and 27)         | 18                 |
| Less obligations under finance leases maturing within one year (Notes 9 and 27) | 8                  |
| Long-term portion of obligations under finance leases (Notes 9 and 27)          | 10                 |

#### Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT and Smart have finance lease obligations in the aggregate amounts of Php21 million, Php16 million and Php18 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 9 – Property, Plant and Equipment.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

# 21. Deferred Credits and Other Noncurrent Liabilities

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|  | Decem  | December 31,       |        |  |  |
|--|--------|--------------------|--------|--|--|
|  | 2012   | 2011               | 2011   |  |  |
|  |        | (in million pesos) |        |  |  |
| Accrual of capital expenditures under long-term financing  | 19,203 | 20,128             | 12,040 |  |  |
| Provision for asset retirement obligations (Notes 3 and 9) | 2,543  | 2,107              | 1,344  |  |  |
| Unearned revenues (Note 23)                                | 174    | 172                | 114    |  |  |
| Others   | 30     | 235                | 69     |  |  |
|  | 21,950 | 22,642             | 13,567 |  |  |

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the years ended December 31, 2012 and 2011, and January 1, 2011:

|  | December 31, |                    | January 1, |  |
|--|--------------|--------------------|------------|--|
|  | 2012         | 2011               | 2011       |  |
|  |              | (in million pesos) |            |  |
| Provision for asset retirement obligations at beginning of the year    | 2,107        | 1,344              | 1,204      |  |
| Additional liability recognized during the year (Note 28)              | 290          | 29                 | 49         |  |
| Accretion expenses (Note 5)  | 146          | 122                | 97         |  |
| Business combinations (Note 13)  | -            | 614                | -          |  |
| Settlement of obligations and others                                   | -            | (2)                | (6)        |  |
| Provision for asset retirement obligations at end of the year (Note 3) | 2,543        | 2,107              | 1,344      |  |

#### 22. Accounts Payable

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|                                     | Decer              | December 31, |        |
|-------------------------------------|--------------------|--------------|--------|
|                                     | 2012               | 2011         | 2011   |
|                                     | (in million pesos) |              |        |
| Suppliers and contractors (Note 27) | 26,128             | 25,476       | 20,957 |
| Carriers (Note 27)                  | 2,007              | 1,642        | 1,866  |
| Taxes (Note 26)                     | 1,421              | 1,555        | 2,114  |
| Related parties (Notes 24 and 27)   | 668                | 626          | 244    |
| Others                              | 227                | 255          | 623    |
|                                     | 30,451             | 29,554       | 25,804 |

Accounts payable are non-interest bearing and are normally settled within 180 days.

For terms and conditions relating to related parties, see Note 24 - Related Party Transactions.

For explanation on the PLDT Group's credit risk management processes, see Note 27 – Financial Assets and Liabilities – Credit Risk.

#### 23. Accrued Expenses and Other Current Liabilities

As at December 31, 2012 and 2011, and January 1, 2011, this account consists of:

|   | December 31, |                     | January 1, |
|---|--------------|---------------------|------------|
|   | 2012         | 2011                | 2011       |
|   |              | (As Adjusted – Note | 2)         |
|   |              | (in million pesos)  |            |
| Accrued utilities and related expenses (Notes 24 and 27)              | 36,800       | 28,429              | 19,941     |
| Accrued taxes and related expenses (Note 26)                          | 8,281        | 11,817              | 2,236      |
| Liability from redemption of preferred shares (Notes 19, 27 and 28)   | 7,884        | _                   | _          |
| Unearned revenues (Note 21)   | 6,291        | 5,664               | 4,698      |
| Accrued employee benefits (Notes 3, 24, 25 and 27)                    | 5,494        | 4,463               | 3,853      |
| Accrued interests and other related costs (Notes 20 and 27)           | 1,174        | 1,122               | 1,028      |
| Mandatory tender offer option liability (Note 28)                     | · -          | 4,940               | · –        |
| Current portion of contingent consideration for business acquisitions | -            | -                   | 1,632      |
| Others  | 5,700        | 1,836               | 2,571      |
|   | 71,624       | 58,271              | 35,959     |

Accrued utilities and related expenses pertain to cost incurred for repairs and maintenance (mostly pertaining to electricity and water consumption), selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Accrued expenses and other current liabilities are non-interest bearing and are normally settled within a year.

#### 24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties maybe individuals or corporate entities.

The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at December 31, 2012. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at December 31, 2012 and 2011, and January 1, 2011 transactions that have been entered into with related parties:

|  |  |   | _                           | Decer | nber 31,           | January 1, |
|--|--|---|-----------------------------|-------|--------------------|------------|
|  | Classifications  | Terms   | Conditions                  | 2012  | 2011               | 2011       |
| Indirect investment in joint<br>ventures through PCEV:                   |  |   |                             |       | (in million pesos) |            |
| Meralco  | Accrued expenses and<br>other current<br>liabilities (Note 23) | Electricity charges –<br>immediately upon<br>receipt of invoice     | Unsecured;<br>no impairment | 266   | 271                | 183        |
|  |  | Pole rental – 45<br>days upon receipt<br>of billing                 | Unsecured;<br>no impairment | 12    | 6                  | 111        |
| Meralco Industrial<br>Engineering Services<br>Corporation, or<br>MIESCOR | Accrued expenses and<br>other current<br>liabilities (Note 23) | Outside and inside<br>plant – 20 days<br>upon receipt of<br>invoice | Unsecured;<br>no impairment | 2     | -                  | -          |
| Indirect investment in<br>associate through ACeS<br>Philippines:         |  |   |                             |       |                    |            |
| AIL  | Accrued expenses and<br>other current<br>liabilities (Note 23) | 30 days upon<br>receipt of billing                                  | Unsecured;<br>no impairment | 43    | 147                | 140        |

|  |  |  |                             | Decem | nber 31,           | January 1 |
|--|--|--|-----------------------------|-------|--------------------|-----------|
|  | Classifications  | Terms  | Conditions                  | 2012  | 2011               | 2011      |
| Transactions with major<br>stockholders, directors |  |  |                             |       | (in million pesos) | )         |
| and officers:                                      |  |  |                             |       |                    |           |
| Asia Link B.V., or ALBV                            | Accounts payable<br>(Note 22)  | 15 days from end of<br>quarter                                     | Unsecured;<br>no impairment | 252   | 234                | 200       |
| NTT World Engineering<br>Marine Corporation        | Accrued expenses and<br>other current<br>liabilities (Note 23)                         | 1 <sup>st</sup> month of each<br>quarter; non-<br>interest bearing | Unsecured;<br>no impairment | 29    | 29                 | 27        |
| NTT Communications                                 | Accrued expenses and<br>other current<br>liabilities (Note 23)                         | 30 days; non-<br>interest bearing                                  | Unsecured;<br>no impairment | 18    | 12                 | 14        |
| NTT Worldwide<br>Telecommunications<br>Corporation | Accrued expenses and<br>other current<br>liabilities (Note 23)                         | 30 days; non-<br>interest bearing                                  | Unsecured;<br>no impairment | 2     | -                  | 2         |
| NTT DOCOMO   | Accrued expenses and<br>other current<br>liabilities (Note 23)                         | 30 days; non-<br>interest bearing                                  | Unsecured;<br>no impairment | 8     | 8                  | 13        |
| JGSHI  | Accounts payable and<br>accrued expenses<br>and other current<br>liabilities (Note 23) | Immediately upon<br>receipt of invoice                             | Unsecured;<br>no impairment | 5     | 70                 | -         |
| Malayan Insurance Co.,<br>Inc., or Malayan         | Accrued expenses and<br>other current<br>liabilities (Note 23)                         | Immediately upon receipt of invoice                                | Unsecured;<br>no impairment | 1     | 1                  | -         |
| Others:  |  |  |                             |       |                    |           |
| Various  | Trade and other<br>receivables<br>(Note 16)  | 30 days upon<br>receipt of billing                                 | Unsecured;<br>no impairment | 297   | 325                | 145       |

The following table provides the summary of transactions for the years ended December 31, 2012, 2011 and 2010 in relation with the table above for the transactions that have been entered into with related parties.

|  | Classifications  | 2012         | 2011               | 2010         |
|--|--|--------------|--------------------|--------------|
|  |  |              | (in million pesos) |              |
| Indirect investment in joint ventures through<br>PCEV:           |  |              | , i ,              |              |
| Meralco  | Repairs and maintenance<br>Rent                                      | 3,096<br>250 | 2,319<br>226       | 2,438<br>199 |
| MIESCOR  | Repairs and maintenance<br>Construction-in-progress                  | 51<br>35     | 28<br>25           | -            |
| Republic Surety & Insurance Co., Inc. or<br>RSIC                 | Insurance and security services                                      | 3            | _                  | _            |
| Indirect investment in associate through<br>ACeS Philippines:    |  |              |                    |              |
| AIL  | Cost of sales  | 80           | 105                | 122          |
| Transactions with major stockholders,<br>directors and officers: |  |              |                    |              |
| JGSHI  | Rent   | 82           | 29                 | -            |
|  | Repairs and maintenance  | 67           | 10                 | -            |
|  | Communication, training and travel                                   | 14           | 3                  | -            |
|  | Selling and promotions<br>Professional and other contracted          | 6            | 2                  | -            |
| AL BV  | services<br>Professional and other contracted                        | 1            | -                  | -            |
| ALBV   | sevices  | 332          | 581                | 615          |
| Malayan  | Insurance and security services<br>Professional and other contracted | 234          | 230                | 328          |
| NTT DOCOMO<br>NTT World Engineering Marine                       | services   | 56           | 72                 | 75           |
| Corporation  | Repairs and maintenance  | 32           | 14                 | 12           |
| NTT Worldwide Telecommunications<br>Corporation                  | Selling and promotions   | 13           | 11                 | 16           |
|  | Professional and other contracted                                    |              |                    |              |
| NTT Communications   | services   | 69           | 69                 | 76           |
|  | Rent   | 10           | 8                  | 10           |
| Others:  |  |              |                    |              |
| Various  | Revenues   | 259          | 296                | 204          |

#### a. Agreements between PLDT and certain subsidiaries with Meralco

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php3,096 million, Php2,319 million and Php2,438 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under these agreements, the outstanding utilities payable, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php266 million, Php271 million and Php183 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php250 million, Php226 million and Php199 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under these agreements, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php12 million, Php6 million and Php111 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

See also Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares for additional transactions involving Meralco.

## b. Agreements between PLDT and MIESCOR

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, covering the periods from November 25, 2011 until December 31, 2014, renewable upon mutual agreement by both parties. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable works, civil and electrical engineering works and subscriber line installation and maintenance that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php19 million and Php8 million for the years ended December 31, 2012 and 2011, respectively. Total amount capitalized to property, plant and equipment amounted to Php6 million and Php1 million for the years ended December 31, 2012 and 2011, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million and nil as at December 31, 2012 and 2011, respectively.

PLDT also has an existing agreement with MIESCOR for the provision of work for outside plant rehabilitation and related activities. Under the agreement, MIESCOR is responsible for the preventive and corrective maintenance of cables and cabinets in the areas awarded to them. The original contract covers the period from January 1, 2011 up to December 31, 2012, however, both parties mutually agreed to an extension until March 31, 2014.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php32 million and Php20 million for the years ended December 31, 2012 and 2011, respectively. Total amount capitalized to property, plant and equipment amounted to Php29 million and Php24 million for the years ended December 31, 2012 and 2011, respectively. There were no outstanding obligations under this agreement as at December 31, 2012 and 2011.

#### c. Transactions with RSIC

In 2012, PLDT has insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php3 million for the year ended December 31, 2012. There were no outstanding obligations for these transaction as at December 31, 2012.

#### d. Air Time Purchase Agreement between PLDT and AlL and Related Agreements

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AlL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AlL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AlL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AlL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA, which was presented as part of cost of sales in our consolidated income statements, amounted to Php80 million, Php105 million and Php122 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under the Amended ATPA, the outstanding obligations of PLDT, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php43 million, Php147 million and Php140 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 5 – Income and Expenses – Cost of Sales.

e. Transactions with Major Stockholders, Directors and Officers

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest as at December 31, 2012 and 2011, and January 1, 2011 and for the years ended December 31, 2012, 2011 and 2010 are as follows:

1. Agreement between Smart and ALBV

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which expired on February 23, 2012 was renewed until February 23, 2016 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Total service fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php332 million, Php581 million and Php615 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php252 million, Php234 million and Php200 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

#### 2. Other Agreements with NTT Communications and/or its Affiliates

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

• Service Agreement. On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php32 million, Php14 million and Php12 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php29 million each as at December 31, 2012 and 2011, and Php27 million as at January 1, 2011;

- Advisory Services Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php69 million, Php69 million and Php76 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php17 million, Php12 million and Php13 million as at December 31, 2012 and 2011, and January 1, 2011, respectively;
- Conventional International Telecommunications Services Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which was presented as part of rent in our consolidated income statements, amounted to Php10 million, Php8 million and Php10 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million and nil as at December 31, 2012 and 2011, respectively, and Php1 million as at January 1, 2011; and
- Arcstar Licensing Agreement and Arcstar Service Provider Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which was presented as part of selling and promotions in our consolidated income statements, amounted to Php13 million, Php11 million and Php16 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php2 million and nil as at December 31, 2012 and 2011, respectively, and Php2 million as at January 1, 2011.

## 3. Transactions with JGSHI and Subsidiaries

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php82 million and Php29 million for the year ended December 31, 2012 and for the period from October 26, 2011 to December 31, 2011, respectively. Under these agreements, the outstanding obligations, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php4 million and Php67 million as at December 31, 2012 and 2011, respectively.

There were also other transactions such as airfare, electricity, marketing expenses and bank fees, which was presented as part of communication, training and travel, selling and promotions, repairs and maintenance and professional and other contracted services, totaling to Php88 million and Php15 million for the year ended December 31, 2012 and for the period from October 26, 2011 to December 31, 2011, respectively. The outstanding obligations for these transactions, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million and Php3 million as at December 31, 2012 and 2011, respectively.

## 4. Advisory Service Agreement between NTT DOCOMO and PLDT

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php56 million, Php72 million and Php75 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php8 million each as at December 31, 2012 and 2011, and Php13 million as at January 1, 2011.

5. Transactions with Malayan

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, employees liability and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php234 million, Php230 million and Php328 million for the years ended December 31, 2012, 2011 and 2010, respectively. Under this agreement, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million each as at December 31, 2012 and 2011, and nil as at January 1, 2011. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at December 31, 2012 and 2011.

6. Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO. Each of
  NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in
  the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and
  outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as
  they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's
  common stock, have the right to terminate their respective rights and obligations under the
  Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic
  Investment Agreement.
- Limitation on Competition. NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- Business Cooperation. PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- Additional Rights of NTT DOCOMO. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:
  - 1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
  - PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;
  - 3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
  - 4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at December 31, 2012 and 2011, and January 1, 2011.

Change in Control. Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions. subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A "Hostile Transferee" is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not bona fide; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.

Termination. If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

#### f. Others

a. Telecommunications services provided by PLDT and certain of its subsidiaries to various related parties

PLDT and certain of its subsidiaries provide telephone and data communication services to various related parties at arm's length similar to transactions with other customers. The revenues under these services amounted to Php259 million, Php296 million and Php204 million for the years ended December 31, 2012, 2011 and 2010, respectively. The outstanding receivables of PLDT and certain of its subsidiaries, which was presented as part of trade and other receivables in our consolidated statements of financial position, from these services amounted to Php297 million, Php325 million and Php145 million as at December 31, 2012 and 2011, and 2011, respectively.

See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest and Note 18 – Prepayments – Agreement between PLDT and Smart with TV5 for other related party transactions.

# Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012  | 2011               | 2010 |
|---|-------|--------------------|------|
|   |       | (in million pesos) |      |
| Short-term employee benefits                              | 995   | 820                | 664  |
| Post-employment benefits (Note 25)                        | 20    | 33                 | 25   |
| Other long-term employee benefits (Note 25)               | 272   | -                  | 277  |
| Total compensation paid to key officers of the PLDT Group | 1,287 | 853                | 966  |

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as expenses during the reporting period related to key management personnel.

#### 25. Employee Benefits

# Pension

#### Defined Benefit Pension Plans

We have defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering substantially all of our permanent and regular employees, excluding those employees of Smart and certain of its subsidiaries, which require contributions to be made to a separate administrative fund.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at and for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012                   | 2011               | 2010    |
|---|------------------------|--------------------|---------|
|   | (As Adjusted – Note 2) |                    |         |
|   |                        | (in million pesos) |         |
| Changes in present value of defined benefit obligations:              |                        |                    |         |
| Present value of defined benefit obligations at beginning of the year | 15,662                 | 14,604             | 17,399  |
| Actuarial losses (gains) on obligations                               | 2,100                  | (729)              | (2,855) |
| Interest costs on benefit obligation                                  | 980                    | 1,164              | 1,559   |
| Service costs   | 869                    | 812                | 997     |
| Actual benefits paid/settlements                                      | (1,985)                | (203)              | (2,504) |
| Discontinued operations and others (Notes 2 and 13)                   | (170)                  | 14                 | 8       |
| Present value of defined benefit obligations at end of the year       | 17,456                 | 15,662             | 14,604  |
| Changes in fair value of plan assets:                                 |                        |                    |         |
| Fair value of plan assets at beginning of the year                    | 23,706                 | 20.001             | 19,980  |
| Actual contributions  | 2.012                  | 26                 | (17)    |
| Interest income on plan assets  | 1.482                  | 1,600              | 1,798   |
| Discontinued operations and others (Notes 2 and 13)                   | (23)                   | -                  |         |
| Actual benefits paid/settlements                                      | (1,957)                | (203)              | (2,481) |
| Actuarial gains (losses) on plan assets                               | (6,785)                | 2,282              | 721     |
| Fair value of plan assets at end of the year                          | 18,435                 | 23,706             | 20,001  |
| Surplus status – net  | 979                    | 8,044              | 5,397   |
| Accrued benefit costs (Note 3)  | 492                    | 438                | 337     |
| Prepaid benefit costs (Notes 3 and 18)                                | 1,471                  | 8,482              | 5,734   |
| Components of net periodic benefit costs:                             |                        |                    |         |
| Service costs   | 869                    | 812                | 997     |
| Interest income – net   | (502)                  | (436)              | (239)   |
| Curtailment and others  | 160                    | 6                  | 34      |
| Net periodic benefit costs (Notes 3 and 5)                            | 527                    | 382                | 792     |
| Discontinued operations (Note 2)                                      | 170                    | 8                  | 54      |
| Net periodic benefit costs from continuing operations                 | 357                    | 374                | 738     |

Actual loss on plan assets amounted to Php5,303 million for the year ended December 31, 2012, while actual gain on plan assets amounted to Php3,882 million and Php2,519 million for the years ended December 31, 2011 and 2010, respectively.

We expect to contribute the amount of Php435 million to our defined benefit plan in 2013. The following table sets forth the expected future payments as at December 31, 2012:

|              | (in million pesos |
|--------------|-------------------|
| 2013         | 134               |
| 2014         | 221               |
| 2015         | 203               |
| 2016         | 321               |
| 2017         | 487               |
| 2018 to 2022 | 5,495             |

The present value of defined benefit obligation, fair values of assets and experience adjustment as at and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 are as follows:

|   | 2012     | 2011    | 2010               | 2009    | 2008    |
|---|----------|---------|--------------------|---------|---------|
|   |          |         | (in million pesos) |         |         |
| Present value of defined benefit obligations          | 17,456   | 15,662  | 14,604             | 17,399  | 10,917  |
| Fair value of plan assets                             | 18,435   | 23,706  | 20,001             | 19,980  | 7,168   |
| Unfunded (surplus) status – net                       | (979)    | (8,044) | (5,397)            | (2,581) | 3,749   |
| Experience adjustment arising on:                     |          |         |                    |         |         |
| Liability (gain) loss due to experience as percentage |          |         |                    |         |         |
| of defined benefit obligation                         | 1.60%    | (1.43%) | (1.43%)            | 5.10%   | (7.23%  |
| Asset (gain) loss due to experience as percentage     |          |         |                    |         |         |
| of plan assets  | (39.66%) | (7.10%) | 0.77%              | 16.86%  | (35.66% |

The weighted average assumptions used to determine pension benefits for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012 | 2011 | 2010 |
|---|------|------|------|
| Average remaining working years of covered employee | 19   | 19   | 19   |
| Rate of increase in compensation                    | 6%   | 6%   | 8%   |
| Discount rate                                       | 5%   | 6%   | 8%   |

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other asumptions were held constant:

|                         |            | 2012  |
|-------------------------|------------|---|
|                         | Increa     | ase (Decrease)                              |
| Discount rate           | 1%<br>(1%) | <b>(in millions)</b><br>(Php2,112)<br>2,507 |
| Future salary increases | 1%<br>(1%) | 2,469<br>(2,122)                            |

# PLDT's Retirement Plan

The Board of Trustees performed an asset-liability matching study of our retirement plan. The Board of Trustees, which manages the beneficial trust fund, is composed of: (1) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives or employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service, with such percentage to be increased by an additional 5% for each completed year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the year to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the Philippine SEC. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

For the year 2012, PLDT contributed a total of Php2,008 million to the beneficial trust fund.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at December 31, 2012:

|                                   | (in million pesos |
|-----------------------------------|-------------------|
| Noncurrent Financial Assets       |                   |
| Investments in:                   |                   |
| Unlisted equity investments       | 14,930            |
| Shares of stock                   | 3,056             |
| Mutual funds                      | 120               |
| Government securities             | 48                |
| Investment properties             | 8                 |
| Total noncurrent financial assets | 18,162            |
| Current Financial Assets          |                   |
| Cash and cash equivalents         | 181               |
| Receivables                       | 3                 |
| Total current financial assets    | 184               |
| Total PLDT's Plan Assets          | 18,346            |
| Subsidiaries Plan Assets          | 89                |
| Total Consolidated Plan Assets    | 18,435            |

Investment in shares of stocks is valued using the latest bid price at reporting date. Investments in mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values.

#### Unlisted Equity Investments

As at December 31, 2012, this account consists of:

|  | % of Ownership | (in million pesos) |
|--|----------------|--------------------|
| MediaQuest   | 100%           | 14,468             |
| Tahanan Mutual Building and Loan Association, or TMBLA |                |                    |
| (net of subscriptions payable of Php32 million)        | 100%           | 271                |
| BTF Holdings, Inc., or BTFHI                           | 100%           | 152                |
| Superior Multi Parañague Homes, Inc., or SMPHI         | 100%           | 38                 |
| Bancholders, Inc., or Bancholders                      | 100%           | 1                  |
| Superior Parañague Homes, Inc., or SPHI                | 100%           | -                  |
|  |                | 14,930             |

#### Investment in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

The Board of Trustees of the Beneficial Trust Fund approved to make additional investments in MediaQuest amounting to Php750 million each on November 5, 2012 and January 25, 2013 to fund the latter's operational and capital expenditure requirements. Subsequently, on March 1, 2013, the Board of Directors of MediaQuest approved its application of the additional investment to additional paid in capital on the existing subscribed shares of stock.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which will give ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012. The Cignal TV PDRs were subsequently issued on September 27, 2013.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of stocks of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs were subsequently issed on September 27, 2013.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of additional PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs), the holder of which will have a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including noncontrolling interests in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. In 2013, MediaQuest received from ePLDT an amount aggregating to Php1.950 billion representing deposits for future PDRs subscription. See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest.

As at the date of issuance of this report, the Hastings PDRs have not yet been issued.

#### Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in "unlisted equity investments, deposits on future stock subscriptions and advances" in the total financial assets table. The cumulative change in the fair market value of this investment amounted to Php191 million as at December 31, 2012.

#### Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php 150 million. Dividend receivable as at December 31, 2012 amounted to Php2 million.

#### Investment in Shares of Stocks

As at December 31, 2012, this account consists of:

|                  | (in million pesos) |
|------------------|--------------------|
| Common shares    | 2,696              |
| Preferred shares | 360                |
|                  | 3,056              |

Common shares pertain to shares listed in the PSE with fair value of Php2,696 million, which include shares of PSE with fair value of Php2,286 million, shares of PLDT with fair value of Php67 million and other shares with fair value of Php343 million as at December 31, 2012. Total gain from investment in shares of PLDT for the year ended December 31, 2012 amounted to Php5 million comprising of Php5 million in dividend income and Php159 thousand unrealized gain from increase in market value of investment.

Preferred shares represent 300 million shares of preferred shares of PLDT at Php10 par value as at December 31, 2012, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividend earned on this investment amounted to Php49 million for the year ended December 31, 2012.

## Mutual Funds

Investment in mutual funds include various U.S. dollar and Euro denominated equity and fixed income funds, which aims to out-perform benchmarks in various international indices as part of its investment strategy.

## Government Securities

Investment in government securities include treasury bills and fixed-term treasury notes bearing interest ranging from 5.88% to 7%. These securities are fully guaranteed by the government of the Republic of the Philippines.

#### Investment Properties

Investment properties include two condominium units (bare, separate 127 and 58 square meter units) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City.

The allocation of the fair value of the assets for the PLDT pension plan as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  | Decen | December 31, |      |
|--|-------|--------------|------|
|  | 2012  | 2011         | 2011 |
| Investments in listed and unlisted equity securities | 98%   | 96%          | 70%  |
| Temporary cash investments                           | 1%    | 3%           | 24%  |
| Investments in mutual funds                          | 1%    | -            | 1%   |
| Investments in debt and fixed income securities      | -     | 1%           | 2%   |
| Investment in real estate                            | -     | -            | 3%   |
|  | 100%  | 100%         | 100% |

Defined Contribution Plan

Smart's Retirement Plan

Smart and certain of its subsidiaries contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employeer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at December 31, 2012 and 2011, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at December 31, 2012:

|                                   | (in million pesos |
|-----------------------------------|-------------------|
| Noncurrent Financial Assets       |                   |
| Investments in <sup>(1)</sup> :   |                   |
| Domestic fixed income             | 1,280             |
| Domestic equities                 | 513               |
| International equities            | 350               |
| International fixed income        | 175               |
| Total noncurrent financial assets | 2,318             |
| Current Financial Assets          |                   |
| Cash and cash equivalents         | 12                |
| Receivables                       | 15                |
| Total current financial assets    | 27                |
| Total Financial Assets            | 2,345             |

<sup>(1)</sup> Carrying value includes accumulated equity on investees.

#### Investment in Domestic Fixed Income

Invesments in domestic fixed income include Philippine peso denominated bonds, such as government securities, corporate bonds and notes, special savings, debt securities and other deposit products of the banks. The investments under this category earned between 6.2% to 9.1% interest in 2012.

## Investment in Domestic Equity

Investments in domestic equities include common shares and convertible preferred shares listed in the PSE. These investments earn on stock price appreciation and dividend payments.

## Investment in International Equity

This category consists of international mutual funds being managed by ING International.

## Investment in International Fixed Income

Investments in international fixed income include foreign currency denominated bonds, such as mutual funds and unit investment trust funds. The Philippine sovereign debt, the only interest-bearing investment in this category, earned 5% interest in 2012.

## Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including time deposits and mutual funds and other deposit products of banks with tenor of less than one year.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at December 31, 2012 and 2011, and January 1, 2011 is as follows:

|  | Decem | December 31, |      |
|--|-------|--------------|------|
|  | 2012  | 2011         | 2011 |
| Investments in debt and fixed income securities      | 56%   | 57%          | 58%  |
| Investments in listed and unlisted equity securities | 37%   | 29%          | 37%  |
| Others   | 7%    | 14%          | 5%   |
|  | 100%  | 100%         | 100% |

Smart and certain of its subsidiaries contributed Php151 million to the fund in 2012. Approximately Php208 million are expected to be contributed to the fund in 2013.

#### Pension Benefit Costs

Net consolidated pension benefit costs for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012                   | 2011               | 2010 |
|---|------------------------|--------------------|------|
|   | (As Adjusted – Note 2) |                    |      |
|   |                        | (in million pesos) |      |
| Expense recognized for defined benefit plans                                    | 527                    | 382                | 792  |
| Expense recognized for defined contribution plans                               | 151                    | 187                | 59   |
| Total expense recognized for consolidated pension benefit costs (Notes 3 and 5) | 678                    | 569                | 851  |
| Consolidated pension benefit income   | 17                     | _                  | -    |
| Expense from discontinued operations (Note 2)                                   | (170)                  | (8)                | (54) |
| Net consolidated pension benefit costs from continuing operations (Note 3)      | 525                    | 561                | 797  |

## Other Long-term Employee Benefits

The 2010 to 2012 LTIP, covering the period from January 1, 2010 to December 31, 2012, was presented to and approved by the ECC and the Board of Directors, and was based on profit targets for the covered performance cycle. The cost of 2010 to 2012 LTIP was determined using the projected unit credit method based on assumed discount rates and profit targets. LTIP costs recognized for the year ended December 31, 2010 amounted to Php1,392 million, while the total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at January 1, 2011, but based on our projections in 2011, the profit targets for the covered performance cycle were no longer achievable, thus, the accrued LTIP cost as at January 31, 2011 was reversed and presented as part of other income in our consolidated income statement for the year ended December 31, 2011. We currently do not expect to make any payouts under the 2010 to 2012 LTIP. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits and Note 5 – Income and Expenses Compensation and Employee Benefits.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the new LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs and liability recognized as at and for the year ended December 31, 2012 amounted to Php1,491 million. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits and Note 5 – Income and Expenses – Compensation and Employee Benefits.

Net periodic benefit costs computed for the year ended December 31, 2012 are as follows:

|   | (in million peso |
|---|------------------|
| Components of net periodic benefit costs: |                  |
| Current service costs                     | 1,459            |
| Interest costs                            | 21               |
| Net actuarial loss                        | 11               |
| Net periodic benefit costs (Note 3)       | 1,491            |

#### 26. Provisions and Contingencies

NTC Supervision and Regulatory Fees, or, due to the NTC

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals, but, as set forth below, was rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on the actual amount paid (inclusive of premiums) for the "capital stock subscribed or paid," and not on par or market value. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as basis not only capital stock subscribed or paid, but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the SRF and had been paying the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the Assessment Letter and Demand Letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

On June 26, 2013, the Supreme Court issued a resolution denying with finality the Motion for Reconsideration of the NTC. PLDT received the Supreme Court's resolution on August 6, 2013, which serves as the termination of the case.

## PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various local government units. PLDT has paid a total amount of Php1,089 million as at December 31, 2012 for local franchise tax covering prior periods up to December 31, 2012.

As at December 31, 2012, PLDT has no contested Local Government Unit, or LGU, assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. Its Motion for Reconsideration having been denied by the court in its Order dated March 2, 2009, the City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss on the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. In a resolution dated February 9, 2012, the Court of Appeals dismissed the case for failure of the City of Tuguegarao and its Treasurer to file their Appellants' Brief. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. The City of Tuguegarao filed its Answer with Motion to Dismiss claiming that the RTC of the City of Makati does not have jurisdiction over the case. Both parties have filed their respective Memorandum on the issue of Jurisdiction. A judicial dispute resolution, or JDR, conference was set by the court after the parties failed to settle the case in the mediation proceedings. Due to the failure of the City of Tuguegarao to appear on the JDR conference last May 15, 2012, the court transmitted the case to the Office of the Clerk of Court of the City of Makati for re-raffling in accordance with the JDR guidelines. The case was raffled to Branch 132 of Makati City and a Pre-Trial Conference, which was scheduled on October 19, 2012, was postponed by the court due to the Motion for Resolution on the previously filed Motion to Dismiss by Tuguegarao City on the ground of lack of jurisdiction. In an order dated October 12, 2012, the court granted the Motion to Dismiss for lack of jurisdiction. PLDT filed a Motion for Reconsideration while the City of Tuguegarao has filed its corresponding Comment. In a Resolution dated January 18, 2013, the court denied the Motion for Reconsideration filed by PLDT. On March 8, 2013, PLDT filed a Petition for Review on the said dismissal of the case before the CTA. Acting on the Petition for Review filed by PLDT, the Second Division of the CTA issued a Resolution dated March 13, 2013 ordering the Respondents City of Tuguegarao and City Treasurer to file their Comment on the Petition for Review filed by PLDT. In a Resolution dated July 2, 2013 and received on July 12, 2013, the CTA ordered both parties to submit its respective Memorandum. PLDT has already submitted its Memorandum together with its Motion to Admit Memorandum and submit case for Resolution after Respondent City of Tuguegarao and City Treasurer failed to file their Comment on the Petition for Review filed by PLDT.

## Smart's Local Business and Franchise Tax Assessments

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of the City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In August 2009, the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued deficiency local tax assessments, which Smart protested. On August 3, 2010, the City of Makati issued a Notice of Distraint and Levy. Smart filed on September 1, 2010 an Appeal before the RTC of the City of Makati. After several hearings, Smart and the City of Makati entered into a compromise agreement which was submitted to the court for judgment. On January 20, 2012, the RTC of the City of Makati issued its Judgment finding the compromise agreement meritorious and ordered both parties to comply with the terms and conditions of the agreement. With the compliance to the terms and conditions, the audit of Smart's local tax liabilities by the City of Makati was terminated.

In the cases of *Smart Communications, Inc. vs. City of Davao* (July 21, 2009) and *City of Iloilo vs. Smart Communications* (July 1, 2009), the Supreme Court held that Smart is liable to pay the local franchise tax to the City of Davao and City of Iloilo. Several cities and provinces have begun discussions with Smart on the settlement of alleged local franchise tax with their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the decisions on the Cities of Iloilo and Davao and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

Meanwhile, the Province of Cagayan also issued tax assessment for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160, or R.A. No. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. On April 30, 2012, the RTC rendered a decision giving the petition due course and the assailed tax assessment nullified and set aside. The Province of Cagayan was directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then filed a Petition for Review before the Court of Tax Appeals in the City of Quezon on June 19, 2012, appealing the RTC Decision dated April 30, 2012. In a Decision promulgated on July 25, 2013, the Court of Tax Appeals ruled that the franchise tax assessment made by the Province of Cagayan against Smart for 2004 to 2009 based on "presumptive tax" is null and void for lack of legal and factual justifications.

## Smart's Real Property Tax Assessment

In Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

On August 16, 2010, the Court of Appeals issued an Entry of Judgment confirming that the November 26, 2008 Resolution had become final and executory on December 22, 2008, and it was recorded in the book of Entries of Judgments.

## PCEV's Local Franchise Tax Assessment

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled *"Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto"* (PCEV vs. City of Makati) (Civil Case No. 01-1760), the RTC of the City of Makati rendered its Decision dated December 10, 2002 declaring PCEV exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of PCEV, Republic Act No. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the local government code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *PCEV vs. City of Makati* case. As at the date of issuance of this report, the case remains pending.

## Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax. However, in the case of *Digitel vs. City Government of Batangas* (G.R. No. 156040, December 11, 2008), the Supreme Court ruled that Digitel's real properties used in its telecommunications business are subject to the real property tax. On June 16, 2009, the Supreme Court denied Digitel's Motion for Reconsideration. Digitel has already fully settled its obligation with the City Government of Batangas and in an order dated January 8, 2012, the case has been terminated by the Regional Trial Court, Branch 8 of Batangas City.

## DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato* (Civil Case No. 2010-345, February 2010), DMPI filed a Petition for prohibition and mandamus against the City of Cotabato due to their threats to close its cell sites due to real property tax delinquencies. DMPI is awaiting confirmation from external counsel and there are still ongoing negotiations for the reassessment of the valuation of DMPI sites.

In the *DMPI vs. City of Davao* (Special Civil Case No. 33,823-11, March 2011), DMPI's Petition for Prohibition and Mandamus sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted, being that it is exempt under its BOI registration and prevailing laws. The case is in pre-trial stage. DMPI paid local business taxes and real property tax on tower and improvements. The City of Davao's Legal Officer issued a letter-opinion declaring DMPI's machinery as exempt from real property tax.

In the *DMPI vs. City Government of Malabon* (Special Civil Action 11-011-MN, November 2011), DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a Temporary Restraining Order to defer the sale. There is an ongoing mediation and the parties are exploring the possibility of settling amicably.

#### DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo* (Special Civil Action Case No. Br. 20-542, September 2011), DMPI filed a petition for Prohibition and Mandamus with Preliminary Injunction and Temporary Restraining Order against the Tower Fee Ordinance of the Municipality of San Mateo. The parties have already submitted their respective memorandum and the case is already submitted for resolution. The RTC denied DMPI's petition. In June, 2013, DMPI filed a motion for reconsideration.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the Court of Appeals after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200,000 per cell site per annum. DMPI has already filed its comment to the petition.

*DMPI vs. City of Trece Martires* (Civil Case No. TMSCA-004-10, February 2010) – The Company petitioned to declare void the Trece Martires ordinance of imposing tower fee of Php150,000 for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

*Globe Telecoms, et al. vs. City of Lipa* (Civil Case No. 2006-0568, 2006) – Globe filed a Protest of Assessment questioning the act of the LGU in assessing tower fees for its sites amounting to Php105,000 per year. A joint Memoranda for Smart, DTPI and DMPI was submitted in June 2013 pertaining to the issue of whether the Ordinance is a regulatory or tax imposition.

## Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Pursuant to an agreement between PLDT and ETPI, the arbitration proceedings have been suspended.

#### Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition

In the Gamboa Case, the Supreme Court in its decision dated June 28, 2011, or the Gamboa Case Decision, held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". The Gamboa Case Decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution. Several Motions for Reconsideration of the Gamboa Case Decision were filed by the parties. On October 18, 2012, the Gamboa Case Decision became final and executory.

While PLDT was not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized preferred capital stock into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 12, 2012, the Board of Directors of PLDT approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a Filipino corporation. On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, or the Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of September 30, 2013, PLDT's foreign ownership was 32.67% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.95% of its total outstanding capital stock.

On June 10, 2013, PLDT was served a copy of a Petition for Certiorari under Rule 65 of the Revised Rules of Court, or the Petition, filed with the Supreme Court by Jose M. Roy III as petitioner against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT as respondents. The Petition primarily questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine Court to the Gamboa Case Decision and Section 11, Article XII of the Constitution. Per the Philippine SEC Guidelines, the Philippine nationality requirement of Section 11, Article XII of the Constitution is met if at least 60% of: (a) the outstanding voting stocks; and (b) the outstanding capital stock of the company is owned by Filipinos.

The Petition admits that if the Philippine SEC Guidelines were to be followed, PLDT would be compliant with the nationality requirement of the Philippine Constitution. However, the Petition claims that the Philippine SEC Guidelines do not conform to the letter and spirit of the Constitution and the Gamboa Case Decision supposedly requiring the application of the 60%-40% ownership requirement in favor of Filipino citizens separately to each class of shares, whether common, preferred non-voting, preferred voting or any other class of shares, or the Other Gamboa Statements. The Petition also claims that the PLDT-BTF does not satisfy the effective Filipino-control test for purposes of incorporating BTFHI which acquired the 150 million Voting Preferred Shares.

Wilson C. Gamboa, Jr., Daniel V. Cartagena, John Warren P. Gabinete, Antonio V. Pesina, Jr., Modesto Martin Y. Mamon and Gerardo C. Erebaren, or the Intervenors, filed a Motion for Leave to file Petition-In-Intervention dated July 16, 2013 which the Supreme Court granted in a Resolution dated August 6, 2013. The Petition-In-Intervention raised identical arguments and issues as that of the Petition.

PLDT, through counsels, filed its Comment on the Petition on September 5, 2013. In its Comment, PLDT raised the following defenses: (a) Petitioner's direct recourse to the Supreme Court in filing the petition violates the fundamental doctrine of the hierarchy of courts. There are no compelling reasons to invoke the Supreme Court's original jurisdiction; (b) The Petition was prematurely brought before the Supreme Court. Petitioner failed to exhaust administrative remedies before the Philippine SEC, and there are facts yet to be established (in the lower courts) that are necessary for a proper and complete ruling; (c) The Petition is in the nature of a petition for mandamus and/or declaratory relief which, under Rules 65 and 63 of the Rules of Court, are not within the exclusive and/or original jurisdiction of the Supreme Court, as provided under Article VIII, Sections 5(1), 5(5), 6 and 11 of the Constitution and Rule 56 of the Rules of Court; (d) The Petition must be dismissed in as much as it is challenging the validity and constitutionality of a Memorandum Circular, which was issued in the exercise of the Philippine SEC's quasi-legislative power, for which a petition for certiorari is an inappropriate remedy; (e) Assuming arguendo that the issuance of Philippine SEC Memorandum Circular No. 8 involved the exercise by the Philippine SEC of its quasi-judicial power, the Petition still cannot prosper since the issue of the validity and constitutionality of Philippine SEC Memorandum Circular No. 8 does not pertain to errors of jurisdiction on the part of the Philippine SEC; (f) Petitioner is not the proper party to question the constitutionality of the Philippine SEC Guidelines and PLDT's compliance with the Gamboa decision and the Petition is likewise not a valid taxpayer's suit and should not be entertained by the Supreme Court; (g) The Petition seeks relief that effectively deprives the necessary and indispensable parties affected thereby (such as, BTFHI, MediaQuest, PLDT-BTF, and all corporations in which PLDT-BTF made an investment and their subsidiaries) of their constitutional right to due process, all of whom were not impleaded as parties; and (h) Philippine SEC Memorandum Circular No. 8 merely implemented the dispositive portion of the Gamboa Case Decision.

Particularly, for the defense under (h) above, PLDT argued that: (a) the only binding and enforceable part of the Gamboa Case Decision is the dispositive portion, which defined the term "capital" under Article XII, Section 11 of the 1987 Constitution as "shares of stock entitled to vote in the election of directors", and such dispositive portion of the Gamboa Case Decision is properly reflected and enforced in Philippine SEC Memorandum Circular No. 8. The Other Gamboa Statements were just "obiter dicta" or expressions of opinion which have no precedential value and binding effect; and (b) with respect to the nationality of PLDT-BTF and BTFHI, the fundamental requirements which needs to be satisfied in order for PLDT-BTF and BTFHI to be considered Filipino is for PLDT-BTF's Trustees to be Filipinos and 60% of the Fund will accrue to the benefit of Philippine nationals. This is reflected in Section 3(a) of Republic Act No. 7042, as amended, or the Foreign Investment Act, which provides that the term "Philippine national" includes "a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of "Philippine nationals". Both requirements are present with respect to the PLDT-BTF. Consequently, there is no question that PLDT-BTF and BTFHI are Filipino shareholders for purposes of classifying their 150 million shares of Voting Preferred Stock in PLDT and as a result, more than 60% of PLDT's total voting stock is Filipino-owned. PLDT is thus compliant with the Philippine nationality requirement under Article XII, Section 11 of the 1987 Constitution.

PLDT filed its Comment on the Petition-in-intervention on October 22, 2013. PLDT raised identical defenses and arguments in its Comment on the Petition-in-intervention as that of its Comment on the Petition.

The resolution of the Jose M. Roy III Petition and the Petition-in-intervention remains pending with the Supreme Court.

Other disclosures required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments.

## 27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our financial assets and financial liabilities as at December 31, 2012 and 2011, and January 1, 2011:

|   | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL |                 | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized<br>cost | Total<br>financial<br>assets and<br>liabilities |
|---|-----------------------------|--------------------|-------------------------------------|-----------------|---|---|---|
|   |                             |                    | (                                   | in million peso | os)   |   |   |
| Assets as at December 31, 2012                |                             |                    |                                     |                 |   |   |   |
| Noncurrent:                                   |                             |                    |                                     |                 |   |   |   |
| Available-for-sale financial investments      | -                           | -                  | -                                   | -               | 5,651   | -   | 5,651   |
| Investment in debt securities and other long- |                             |                    |                                     |                 |   |   |   |
| term investments                              | 205                         | -                  | -                                   | -               | -   | -   | 205   |
| Advances and other noncurrent assets -        |                             |                    |                                     |                 |   |   |   |
| net of current portion                        | 962                         | -                  | -                                   | -               | -   | -   | 962   |
| Current:                                      |                             |                    |                                     |                 |   |   |   |
| Cash and cash equivalents                     | 37,161                      | -                  | -                                   | -               | -   | -   | 37,161  |
| Short-term investments                        | 24                          | -                  | 550                                 | -               | -   | -   | 574   |
| Trade and other receivables                   | 16,379                      | -                  | -                                   | -               | -   | -   | 16,379  |
| Current portion of investment in debt         |                             |                    |                                     |                 |   |   |   |
| securities and other long-term investments    | -                           | 150                | -                                   | -               | -   | -   | 150   |
| Current portion of advances and other         |                             |                    |                                     |                 |   |   |   |
| noncurrent assets                             | 7,915                       | -                  | -                                   | -               | -   | -   | 7,915   |
| Total assets                                  | 62,646                      | 150                | 550                                 | -               | 5,651   | -   | 68,997  |

|  | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL |                 | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized<br>cost | Total<br>financial<br>assets and<br>liabilities |
|--|-----------------------------|--------------------|-------------------------------------|-----------------|---|---|---|
| Lishilition on at December 01, 0010  |                             |                    | (                                   | in million peso | os)   |   |   |
| Liabilities as at December 31, 2012<br>(As adjusted – Note 2)  |                             |                    |                                     |                 |   |   |   |
| Noncurrent:  |                             |                    |                                     |                 |   |   |   |
| Interest-bearing financial liabilities –   |                             |                    |                                     |                 |   | 100 001   | 100 001   |
| net of current portion<br>Derivative financial liabilities   | -                           | -                  | 2,802                               | -               | -   | 102,821   | 102,821<br>2,802                                |
| Customers' deposits  | -                           | -                  | -                                   | -               | _   | 2,529   | 2,529   |
| Deferred credits and other noncurrent  |                             |                    |                                     |                 |   |   |   |
| liabilities  | -                           | -                  | -                                   | -               | -   | 19,224  | 19,224  |
| <i>Current:</i><br>Accounts payable  | _                           | _                  | _                                   | _               | _   | 29.027  | 29,027  |
| Accrued expenses and other current   |                             |                    |                                     |                 |   | 20,021  | 25,027  |
| liabilities  | -                           | -                  | -                                   | -               | -   | 56,662  | 56,662  |
| Current portion of interest-bearing financial  |                             |                    |                                     |                 |   | 40.000  | 10.000  |
| liabilities<br>Dividends payable   | -                           | -                  | -                                   | -               | -   | 12,989<br>827   | 12,989<br>827                                   |
| Derivative financial liabilities   | -                           | -                  | 70                                  | 348             | _   | - 627   | 418   |
| Total liabilities  | -                           | -                  | 2,872                               | 348             | -   | 224,079   | 227,299   |
| Net assets (liabilities)   | 62,646                      | 150                | (2,322)                             | (348)           | 5,651   | (224,079)   | (158,302)                                       |
| Assets as at December 31, 2011<br>(As Adjusted – Note 13)<br>Noncurrent:   |                             |                    |                                     |                 |   |   |   |
| Available-for-sale financial investments   | _                           | _                  | _                                   | _               | 7,181   | _   | 7,181   |
| Investment in debt securities and other long-  |                             |                    |                                     |                 | .,  |   | .,  |
| term investments - net of current portion  | -                           | 150                | -                                   | -               | -   | -   | 150   |
| Advances and other noncurrent assets – net   | 1 1 4 7                     |                    |                                     |                 |   |   | 1 1 4 7   |
| of current portion Current:  | 1,147                       | -                  | -                                   | -               | -   | _   | 1,147   |
| Cash and cash equivalents  | 46,057                      | -                  | -                                   | -               | _   | _   | 46,057  |
| Short-term investments   | 24                          | -                  | 534                                 | -               | -   | -   | 558   |
| Trade and other receivables  | 16,245                      | -                  | -                                   | -               | -   | -   | 16,245  |
| Derivative financial assets<br>Current portion of investment in debt   | -                           | -                  | 366                                 | -               | -   | -   | 366   |
| securities and other long-term investments   | -                           | 358                | -                                   | -               | -   | _   | 358   |
| Current portion of advances and other  |                             |                    |                                     |                 |   |   |   |
| noncurrent assets Total assets   | 18<br>63,491                | 508                | 900                                 | -               | 7,181   | -   | 18<br>72,080                                    |
| Liabilities as at December 31, 2011<br>(As Adjusted – Note 13)<br><i>Noncurrent:</i><br>Interest-bearing financial liabilities – | ,                           |                    |                                     |                 | -,  |   |   |
| net of current portion   | -                           | _                  | -                                   | _               | _   | 91,280  | 91,280  |
| Derivative financial liabilities<br>Customers' deposits  | _                           | _                  | 2,235                               | _               | _   | 2,272   | 2,235<br>2,272                                  |
| Deferred credits and other noncurrent  |                             |                    |                                     |                 |   | 2,212   | 2,212   |
| liabilities  | -                           | -                  | -                                   | -               | -   | 20,343  | 20,343  |
| Current:   |                             |                    |                                     |                 |   | 07.000  | 07.000  |
| Accounts payable<br>Accrued expenses and other current   | _                           | _                  | -                                   | -               | -   | 27,982  | 27,982  |
| liabilities  | -                           | -                  | -                                   | _               | _   | 40,459  | 40,459  |
| Current portion of interest-bearing financial  |                             |                    |                                     |                 |   |   |   |
| liabilities  | -                           | _                  | _                                   | -               | -   | 26,009  | 26,009  |
| Dividends payable<br>Derivative financial liabilities  | _                           | _                  | 922                                 | 2               | _   | 2,583   | 2,583<br>924                                    |
| Total liabilities  | -                           | -                  | 3,157                               | 2               | -   | 210,928   | 214,087   |
| Net assets (liabilities)   | 63,491                      | 508                | (2,257)                             | (2)             | 7,181   | (210,928)   | (142,007)                                       |
| Assets as at January 1, 2011<br>Noncurrent:  |                             |                    |                                     |                 |   |   |   |
| Available-for-sale financial investments   | -                           | -                  | -                                   | -               | 147   | -   | 147   |
| Investment in debt securities and other long-<br>term investments  | _                           | 484                | _                                   |                 |   |   | 484   |
| term investments<br>Derivative financial assets  | _                           | 404                | -<br>178                            | _               | _   | _   | 484<br>178                                      |
| Advances and other noncurrent assets –   |                             |                    |                                     |                 |   |   | 170   |
| net of current portion   | 984                         | -                  | -                                   | -               | -   | -   | 984   |
| Current:   | 00.070                      |                    |                                     |                 |   |   | 00.070  |
| Cash and cash equivalents<br>Short-term investments  | 36,678<br>152               | -                  | -<br>517                            | _               | -   | -   | 36,678<br>669                                   |
| Trade and other receivables  | 16,428                      | _                  | - 517                               | _               | _   | _   | 16,428  |
| Derivative financial assets  |                             | -                  | 5                                   | -               | _   | _   | 5   |
| Current portion of advances and other  |                             |                    |                                     |                 |   |   |   |
| noncurrent assets  | 16                          | -                  | -                                   | -               | -   | -   | 16  |
| Total assets   | 54,258                      | 484                | 700                                 | -               | 147   | -   | 55,589  |

|   | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL |                  | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized<br>cost | Total<br>financial<br>assets and<br>liabilities |
|---|-----------------------------|--------------------|-------------------------------------|------------------|---|---|---|
|   |                             |                    | (                                   | (in million peso | os)   |   |   |
| Liabilities as at January 1, 2011             |                             |                    |                                     |                  |   |   |   |
| Noncurrent:                                   |                             |                    |                                     |                  |   |   |   |
| Interest-bearing financial liabilities –      |                             |                    |                                     |                  |   |   |   |
| net of current portion                        | -                           | -                  | -                                   | -                | -   | 75,888  | 75,888  |
| Derivative financial liabilities              | -                           | -                  | 3,604                               | -                | -   | -   | 3,604   |
| Customers' deposits                           | -                           | -                  | -                                   | -                | -   | 2,223   | 2,223   |
| Deferred credits and other noncurrent         |                             |                    |                                     |                  |   |   |   |
| liabilities                                   | -                           | -                  | -                                   | -                | -   | 12,041  | 12,041  |
| Current:                                      |                             |                    |                                     |                  |   |   |   |
| Accounts payable                              | -                           | -                  | -                                   | -                | -   | 23,673  | 23,673  |
| Accrued expenses and other current            |                             |                    |                                     |                  |   |   |   |
| liabilities                                   | -                           | -                  | -                                   | -                | -   | 28,822  | 28,822  |
| Current portion of interest-bearing financial |                             |                    |                                     |                  |   |   |   |
| liabilities                                   | -                           | -                  | -                                   | -                | -   | 13,801  | 13,801  |
| Dividends payable                             | -                           | -                  | -                                   | -                | -   | 2,086   | 2,086   |
| Total liabilities                             | -                           | -                  | 3,604                               | -                | _   | 158,534   | 162,138   |
| Net assets (liabilities)                      | 54,258                      | 484                | (2,904)                             | -                | 147   | (158,534)   | (106,549)                                       |

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2012 and 2011, and January 1, 2011:

|   |                 | Carrying Valu   | e               | Fair Value      |                 |                 |  |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|
|   |                 | ber 31,         | January 1,      | Decem           |                 | January 1       |  |
|   | 2012            | 2011            | 2011            | 2012            | 2011            | 2011            |  |
|   |                 |                 |                 | ted – Note 2)   |                 |                 |  |
| Noncurrent Financial Assets   |                 |                 | (in milli       | on pesos)       |                 |                 |  |
| Available-for-sale financial investments:   |                 |                 |                 |                 |                 |                 |  |
| Listed equity securities  | 89              | 81              | 78              | 89              | 81              | 78              |  |
| Unlisted equity securities  | 5.562           | 7.100           | 69              | 5.562           | 7.100           | 69              |  |
| Investment in debt securities and other long-term   | 0,002           | 1,100           | 00              | 0,002           | 7,100           | 00              |  |
| investments – net of current portion  | 205             | 150             | 484             | 219             | 158             | 502             |  |
| Derivative financial assets:  |                 |                 |                 |                 |                 |                 |  |
| Long-term currency swap   | -               | -               | 178             | -               | -               | 178             |  |
| Advances and other noncurrent assets – net of   |                 |                 |                 |                 |                 |                 |  |
| current portion   | 962             | 1,147           | 984             | 912             | 1,061           | 915             |  |
| Total noncurrent financial assets   | 6,818           | 8,478           | 1,793           | 6,782           | 8,400           | 1,742           |  |
| Current Financial Assets  |                 |                 |                 |                 |                 |                 |  |
| Cash and cash equivalents:  | _               |                 |                 |                 |                 |                 |  |
| Cash on hand and in banks   | 5,611           | 4,637           | 2,906           | 5,611           | 4,637           | 2,906           |  |
| Temporary cash investments  | 31,550          | 41,420          | 33,772          | 31,550          | 41,420          | 33,772          |  |
| Short-term investments  | 574             | 558             | 669             | 574             | 558             | 669             |  |
| Trade and other receivables – net:  | 1.000           | 4 700           | 4 004           | 4 001           | 4 700           | 4.001           |  |
| Foreign administrations   | 4,861           | 4,762           | 4,321           | 4,861           | 4,762           | 4,321           |  |
| Retail subscribers  | 4,079           | 4,038           | 3,872           | 4,079           | 4,038           | 3,872           |  |
| Corporate subscribers<br>Domestic carriers  | 1,963<br>1,601  | 2,708<br>1,212  | 2,042<br>1,453  | 1,963<br>1,601  | 2,708<br>1,212  | 2,042<br>1,453  |  |
| Domestic carriers<br>Dealers, agents and others   | 3,875           | 3,525           | 4,740           | 3,875           | 3,525           | 4,740           |  |
| Derivative financial assets:  | 3,675           | 3,020           | 4,740           | 3,075           | 3,525           | 4,740           |  |
| Long-term currency swap   | _               | 356             | _               | _               | 356             | _               |  |
| Forward foreign exchange contracts  | _               | 10              | _               | _               | 10              | _               |  |
| Bifurcated embedded derivatives   | _               | -               | 5               | _               | -               | 5               |  |
| Current portion of investment in debt securities and  |                 |                 | 0               |                 |                 | 0               |  |
| other long-term investments   | 150             | 358             | -               | 150             | 358             | -               |  |
| Current portion of advances and other noncurrent  |                 |                 |                 |                 |                 |                 |  |
| assets  | 7,915           | 18              | 16              | 7,915           | 18              | 16              |  |
| Total current financial assets  | 62,179          | 63,602          | 53,796          | 62,179          | 63,602          | 53,796          |  |
| Total Financial Assets  | 68,997          | 72,080          | 55,589          | 68,961          | 72,002          | 55,538          |  |
| Noncurrent Financial Liabilities  |                 |                 |                 |                 |                 |                 |  |
| Interest-bearing financial liabilities:   |                 |                 |                 |                 |                 |                 |  |
| Long-term debt – net of current portion   | 102,811         | 91,273          | 75,879          | 110,431         | 95,052          | 82,244          |  |
| Obligations under finance leases  | 10              | 7               | 9               | 9               | 7               | 8               |  |
| Derivative financial liabilities:   | 0.007           | 0.000           | 0.004           | a aa :          | 0.000           | 0.000           |  |
| Long-term currency swap – net of current portion  | 2,681           | 2,090           | 3,604           | 2,681           | 2,090           | 3,604           |  |
| Interest rate swap – net of current portion   | 121             | 145             | -               | 121             | 145             | 1 701           |  |
| Customers' deposits   | 2,529<br>19,224 | 2,272<br>20.343 | 2,223<br>12.041 | 2,200<br>18,176 | 1,772<br>19,420 | 1,701<br>11,457 |  |
| Deferred credits and other noncurrent liabilities<br>Total noncurrent financial liabilities       | 19,224          | 116.130         | 93.756          | 133,618         | 118.486         | 99.014          |  |
| Current Financial Liabilities   | 127,370         | 110,130         | 93,750          | 133,010         | 116,460         | 99,014          |  |
| Accounts payable:   |                 |                 |                 |                 |                 |                 |  |
| Suppliers and contractors   | 26,128          | 25.476          | 20,957          | 26,128          | 25,476          | 20,957          |  |
| Carriers  | 2,007           | 1,642           | 1,866           | 2,007           | 1,642           | 1,866           |  |
| Related parties   | 668             | 626             | 244             | 668             | 626             | 244             |  |
| Others  | 224             | 238             | 606             | 224             | 238             | 606             |  |
| Accrued expenses and other current liabilities:   | 22.7            | 200             | 000             |                 | 200             | 500             |  |
| Utilities and related expenses  | 36,435          | 28,123          | 19,739          | 36,435          | 28,123          | 19,739          |  |
| Liability from redemption of preferred shares   | 7,884           |                 |                 | 7,884           |                 |                 |  |
|   | 5,469           | 4,438           | 3,852           | 5,469           | 4,438           | 3,852           |  |
| Employee benefits   |                 |                 |                 |                 |                 |                 |  |
| Employee benefits<br>Interests and other related costs  | 1,174           | 1,122           | 1.028           | 1.174           | 1.122           | 1.028           |  |
| Employee benefits<br>Interests and other related costs<br>Mandatory tender offer option liability | 1,174           | 1,122<br>4,940  | 1,028           | 1,174           | 1,122<br>4,940  | 1,028           |  |

|   |         | Carrying Val | ue         |                | Fair Value   |         |  |
|---|---------|--------------|------------|----------------|--------------|---------|--|
|   | Decen   | nber 31,     | January 1, | Decen          | December 31. |         |  |
|   | 2012    | 2011         | 2011       | 2012           | 2011         | 2011    |  |
|   |         |              | (As Adjus  | sted – Note 2) |              |         |  |
|   |         |              | (in mill   | ion pesos)     |              |         |  |
| Interest-bearing financial liabilities:     |         |              |            |                |              |         |  |
| Current portion of long-term debt           | 12,981  | 22,893       | 13,767     | 12,981         | 22,893       | 13,767  |  |
| Obligations under finance leases            | 8       | 7            | 34         | 8              | 7            | 34      |  |
| Notes payable                               | -       | 3,109        | -          | -              | 3,109        | -       |  |
| Dividends payable                           | 827     | 2,583        | 2,086      | 827            | 2,583        | 2,086   |  |
| Derivative financial liabilities:           |         |              |            |                |              |         |  |
| Equity forward sale contract                | 348     | -            | -          | 348            | -            | -       |  |
| Current portion of interest rate swap       | 70      | 89           | -          | 70             | 89           | -       |  |
| Current portion of long-term currency swap  | -       | 834          | -          | -              | 834          | -       |  |
| Current portion of forward foreign exchange |         |              |            |                |              |         |  |
| contracts                                   | -       | 1            | -          | -              | 1            | -       |  |
| Total current financial liabilities         | 99,923  | 97,957       | 68,382     | 99,923         | 97,957       | 68,382  |  |
| Total Financial Liabilities                 | 227,299 | 214,087      | 162,138    | 233,541        | 216,443      | 167,396 |  |

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at December 31, 2012 and 2011, and January 1, 2011. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

|   |                        |                        | Decem | 1ber 31,               |                        |       |                        | January 1,             |       |
|---|------------------------|------------------------|-------|------------------------|------------------------|-------|------------------------|------------------------|-------|
|   |                        | 2012                   |       |                        | 2011                   |       |                        | 2011                   |       |
|   | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total |
|   |                        |                        |       | (in                    | million peso           | s)    |                        |                        |       |
| Noncurrent Financial Assets<br>Available-for-sale financial<br>investments – Listed equity            |                        |                        |       |                        |                        |       |                        |                        |       |
| securities  | 89                     | -                      | 89    | 81                     | -                      | 81    | 78                     | -                      | 78    |
| Derivative financial assets   | -                      | -                      | -     | -                      | -                      | -     | -                      | 178                    | 178   |
| Current Financial Assets  |                        |                        |       |                        |                        |       |                        |                        |       |
| Short-term investments  | -                      | 550                    | 550   | -                      | 534                    | 534   | -                      | 517                    | 517   |
| Derivative financial assets   | -                      | -                      | -     | -                      | 366                    | 366   | -                      | 5                      | 5     |
| Total   | 89                     | 550                    | 639   | 81                     | 900                    | 981   | 78                     | 700                    | 778   |
| Noncurrent Financial Liabilities<br>Derivative financial liabilities<br>Current Financial Liabilities | -                      | 2,802                  | 2,802 | _                      | 2,235                  | 2,235 | _                      | 3,604                  | 3,604 |
| Derivative financial liabilities  | -                      | 418                    | 418   | -                      | 924                    | 924   | -                      | _                      | _     |
| Total   | -                      | 3,220                  | 3,220 | -                      | 3,159                  | 3,159 | -                      | 3,604                  | 3,604 |

Pair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.
 Pair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.

As at December 31, 2012 and 2011, and January 1, 2011, we have no financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3). There were also no transfers into and out of Level 3 during the year.

As at December 31, 2012 and 2011, and January 1, 2011, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

| Туре  | Fair Value Assumptions  |
|---|---|
| Noncurrent portion of advances and other noncurrent assets                    | Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.  |
| Fixed Rate Loans:<br>U.S. dollar notes<br>Other loans in all other currencies | Quoted market price.<br>Estimated fair value is based on the discounted value of future cash<br>flows using the applicable Commercial Interest Reference Rate and<br>Philippine Dealing System Treasury Fixing, or PDST-F, rates for similar<br>types of loans. |
| Variable Rate Loans   | The carrying value approximates fair value because of recent and regular repricing based on market conditions.  |
| Customers' deposits and deferred credits and other noncurrent<br>liabilities  | Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.  |

## Derivative Financial Instruments:

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

*Equity forward sale contract:* The fair values were adjusted as the present value of estimated future cash flows using equity prices and Philippine peso interest rates as at valuation date.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of proprietary listed shares, were determined using quoted prices. For investment where there is no active market, investments are carried at cost less any accumulated impairment losses.

*Investment in debt securities:* Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities and dividends payable approximate their carrying values as at the end of the reporting period.

## Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. Equity forward sale contract was designated as cash flow hedge by ePLDT as at December 31, 2012 and forward foreign exchange contracts were designated as cash flow hedges by SPi and SPi CRM as at December 31, 2011. As at January 1, 2011, we have no outstanding financial instruments designated as hedges.

The table below sets out the information about our derivative financial instruments as at December 31, 2012 and 2011, and January 1, 2011:

|   |                      |                   | Decemb                               | er 31,                              |                                      | Janu                                | uary 1,                              |
|---|----------------------|-------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|   |                      | 2                 | 012                                  | 2                                   | 011                                  | 2                                   | 011                                  |
|   | Maturity             | Notional          | Mark-to-<br>market Gains<br>(Losses) | Notional                            | Mark-to-<br>market Gains<br>(Losses) | Notional                            | Mark-to-<br>market Gains<br>(Losses) |
|   | watarity             | Notional          | (203303)                             |                                     | illions)                             | Notional                            | (200000)                             |
| Transactions not designated as hedges:<br>PLDT  |                      |                   |                                      | (                                   |                                      |                                     |                                      |
| Long-term currency swaps                        | 2017<br>2012<br>2012 | US\$202<br>_<br>_ | (Php2,681)<br>_<br>_                 | US\$222<br>100<br>60 <sup>(1)</sup> | (Php2,090)<br>(834)<br>356           | US\$222<br>100<br>60 <sup>(1)</sup> | (Php2,651)<br>(953)<br>178           |
|   |                      |                   | (2,681)                              |                                     | (2,568)                              |                                     | (3,426)                              |
| Digitel Group                                   |                      |                   |                                      |                                     |                                      |                                     |                                      |
| Interest rate swaps                             | 2017                 | 57                | (191)                                | 69                                  | (234)                                | -                                   | _                                    |
| SPi Group<br>Forward foreign exchange contracts | 2012                 | _                 | _                                    | 57                                  | 10                                   | _                                   | _                                    |
| i ormana foroigir ononaligo oormaata            | 2013                 | _                 | _                                    | (4)                                 | (1)                                  | _                                   | _                                    |
|   |                      |                   | -                                    | . /                                 | 9                                    | -                                   | -                                    |
| ePLDT Group                                     |                      |                   |                                      |                                     |                                      |                                     |                                      |
| Bifurcated embedded derivatives                 | 2012                 | -                 | -                                    | -                                   | -                                    | 1                                   | 5                                    |
| Cash flow hedges:<br>ePLDT Group                |                      |                   |                                      |                                     |                                      |                                     |                                      |
| Equity forward sale contract                    | 2013                 | 211 shares        | (348)                                | -                                   | -                                    | -                                   | -                                    |
| Net liabilities                                 |                      |                   | (Php3,220)                           |                                     | (Php2,793)                           |                                     | (Php3,421)                           |

<sup>(1)</sup> Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement matured in 2012.

|                        | Decer   | nber 31,           | January 1, |
|------------------------|---------|--------------------|------------|
|                        | 2012    | 2011               | 2011       |
|                        |         | (in million pesos) |            |
| Presented as:          |         |                    |            |
| Noncurrent assets      | -       | -                  | 178        |
| Current assets         | -       | 366                | 5          |
| Noncurrent liabilities | (2,802) | (2,235)            | (3,604)    |
| Current liabilities    | (418)   | (924)              | -          |
| Net liabilities        | (3,220) | (2,793)            | (3,421)    |

Movements of mark-to-market losses for the years ended December 31, 2012 and 2011 are summarized as follows:

|   | 2012        | 2011     |
|---|-------------|----------|
|   | (in millior | n pesos) |
| Net mark-to-market losses at beginning of the year                          | (2,793)     | (3,421)  |
| Settlements, accretions and conversions                                     | 785         | 304      |
| Effective portion recognized in the profit or loss for the cash flow hedges | 418         | -        |
| Net gains on cash flow hedges charged to other comprehensive income         | 92          | 14       |
| Discontinued operations (Note 2)  | (61)        | -        |
| Gains (losses) on derivative financial instruments                          | (1,661)     | 560      |
| Business combinations (Note 13)   | _           | (250)    |
| Net mark-to-market losses at end of the year                                | (3,220)     | (2,793)  |

Analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2012, 2011 and 2010 are as follows:

|   | 2012    | 2011               | 2010    |
|---|---------|--------------------|---------|
|   |         | (in million pesos) |         |
| Gains (losses) on derivative financial instruments (Note 4)                       | (1,661) | 560                | (1,307) |
| Hedge cost  | (320)   | (363)              | (434)   |
| Net gains (losses) on derivative financial instruments                            | (1,981) | 197                | (1,741) |
| Discontinued operations (Notes 2 and 4)   | (28)    | 4                  | _       |
| Net gains (losses) on derivative financial instruments from continuing operations |         |                    |         |
| (Note 4)  | (2,009) | 201                | (1,741) |

# PLDT

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

## Long-term Currency Swaps

PLDT has entered into long-term principal only-currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php49.85 for the year ended December 31, 2012 and Php50.45 for the years ended December 31, 2011 and 2010. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.42% per annum for the year ended December 31, 2011 and 2.93% per annum for the year ended December 31, 2010.

The long-term currency swaps that we entered to hedge the 2012 fixed rate notes with notional amount of US\$100 million matured on May 15, 2012, with total cash settlement of Php941 million. On various dates from August to November 2012, the long-term principal only-currency swap agreements maturing in 2017 were partially terminated, with a total aggregate settlement of Php256 million. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$202 million as at December 31, 2012.

The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php2,681 million for the year ended December 31, 2012, and the mark-to-market losses of the 2012 and 2017 swaps with notional amounts of US\$100 million and US\$222 million amounted to Php834 million and Php2,090 million, respectively, for the year ended December 31, 2011. The mark-to-market losses of the 2012 and 2017 swap with notional amounts of US\$100 million and US\$222 million amounted to Php834 million and Php2,090 million, respectively, for the year ended December 31, 2011. The mark-to-market losses of the 2012 and 2017 swap with notional amounts of US\$100 million and US\$222 million amounted to Php953 million and Php2,651 million, respectively, as at January 1, 2011.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only-currency swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cash flows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php356 million and Php178 million as at December 31, 2011 and January 1, 2011, respectively. These overlay swaps matured on May 15, 2012, where PLDT received proceeds amounting to Php565 million. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

## Short-term Currency Swaps

On various dates from September to November 2012, PLDT also entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar receipts for purposes of enhancing yields on our excess funds. The total swaps amounted to US\$116 million with the U.S. dollar forward purchase leg booked at an average exchange rate of Php41.47 resulting to total mark-to-market losses of Php25 million as at December 31, 2012. The spot leg of these swaps were sold at an average exchange rate of Php41.45. There were no outstanding short-term currency swaps as at December 31, 2012.

## Interest Rate Swaps

On May 27, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on June 6, 2013) and in exchange, will pay a fixed rate of 1.945%.

On June 6, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.385%.

On July 13, 2013, PLDT entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.25%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.* 

## **Digitel Group**

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million U.S. dollar Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. The outstanding notional amounts under this agreement amounted to US\$31 million and US\$37 million as at December 31, 2012 and 2011, respectively. The mark-to-market losses amounted to Php102 million and Php125 million as at December 31, 2012 and 2011, respectively. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million U.S. dollar Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. The outstanding notional amounts under this agreement amounted to US\$26 million and US\$32 million as at December 31, 2012 and 2011, respectively. The mark-to-market losses amounted to Php89 million and Php109 million as at December 31, 2012 and 2011, respectively. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

# ePLDT Group

On July 10, 2012, ePLDT entered into an equity forward sale contract amounting to Php4,310 million in order to hedge its exposure to the volatility of the share price of Philweb when it sold its investment in 398 million common shares of Philweb at a certain price in four tranches, which is expected to be completed by the end of 2013. The first and second tranches were transacted on July 13, 2012 and October 22, 2012, respectively. Each tranche was for 93.5 million common shares and for a total purchase price of Php1 billion each. On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion. The fourth tranche will be paid on December 13, 2013 for 118 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche. See Note 3 - Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations and Note 10 – Investments in Associates, Joint Ventures and Deposits - Investment of ePLDT in Philweb. The mark-to-market losses recognized in the profit or loss at the inception of this contract amounted to Php727 million. The gains and losses from the inception of this contract will be recognized in cumulative translation adjustments and are expected to be realized in profit or loss upon occurrence of each tranche. The mark-to-market loss transferred from cumulative translation adjustment to profit or loss in relation with the first and second tranches amounted to Php387 million and was recognized as a reduction on the gain of sale of Philweb shares presented as part of other income in our consolidated income statements. The mark-to-market losses as at December 31, 2012 for the remaining two tranches amounted to Php348 million, with Php44 million recognized in cumulative translation adjustments, Php727 million recognized in profit or loss, representing losses at the inception of the contract, and Php3 million recognized in profit or loss, representing the ineffective portion of the loss in the fair value of the contract as at December 31, 2012.

#### SPi Group

In February and March 2011, SPi CRM and SPi entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses, respectively, maturing March 2011 up to October 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged.

On December 6, 2011, SPi CRM changed its functional currency from Philippine peso to U.S. dollar resulting for all its outstanding hedges to become ineffective starting from that date and mark-to-market gains and losses thereafter are recognized in profit or loss. The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges with notional amounts of US\$24 million and US\$29 million, respectively, amounted to Php9 million as at December 31, 2011. In January 2012, SPi CRM pre-terminated all outstanding ineffective hedges.

In March 2012, SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of its monthly peso denominated expenses maturing from June 29, 2012 to December 26, 2013. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly peso expenses hedged.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges and presented as part of derivative financial liabilities under liabilities directly associated with assets classified as held-for-sale with notional amounts of US\$29 million and US\$26 million, respectively, amounted to Php61 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

#### Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

## Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial liabilities are not reviewed in a timely manner and that our working capital requirements and planned capital expenditures are not met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have undrawn credit facilities amounting to Php3,633 million as at December 31, 2012 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php37,161 million and Php574 million, respectively, as at December 31, 2012. See *Note 15 – Cash and Cash Equivalents.* 

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at December 31, 2012 and 2011, and January 1, 2011:

|   |                 | Less than |                    |           | More than |
|---|-----------------|-----------|--------------------|-----------|-----------|
|   | Total           | 1 year    | 1-3 years          | 3-5 years | years     |
|   |                 |           | (in million pesos) |           |           |
| December 31, 2012                                 |                 |           |                    |           |           |
| Loans and receivables:                            | 70,437          | 69,158    | 686                | 453       | 140       |
| Advances and other noncurrent assets              | 8,989           | 7,915     | 686                | 248       | 140       |
| Cash equivalents                                  | 31,550          | 31,550    | -                  | -         | -         |
| Short-term investments                            | 24              | 24        | -                  | -         | -         |
| Investment in debt securities and other long-term | investments 205 | -         | -                  | 205       | -         |
| Retail subscribers                                | 10,568          | 10,568    | -                  | -         | -         |
| Corporate subscribers                             | 8,100           | 8,100     | -                  | -         | -         |
| Foreign administrations                           | 4,960           | 4,960     | -                  | -         | -         |
| Domestic carriers                                 | 1,707           | 1,707     | -                  | -         | -         |
| Dealers, agents and others                        | 4,334           | 4,334     | -                  | -         | -         |
| HTM investments:                                  | 150             | 150       | -                  | -         | -         |
| Investment in debt securities and other long-term | investments 150 | 150       | -                  | -         | -         |
| Financial instruments at FVPL:                    | 550             | 550       | -                  | -         | -         |
| Short-term investments                            | 550             | 550       | -                  | -         | -         |
| Available-for-sale financial investments          | 5,651           | -         | -                  | -         | 5,651     |
| Total   | 76,788          | 69,858    | 686                | 453       | 5,791     |
|   |                 |           |                    |           |           |
| December 31, 2011                                 |                 |           |                    |           |           |
| Loans and receivables:                            | 73,626          | 72,479    | 899                | 201       | 47        |
| Advances and other noncurrent assets              | 1,165           | 18        | 899                | 201       | 47        |
| Cash equivalents                                  | 41,420          | 41,420    | -                  | _         | -         |
| Short-term investments                            | 24              | 24        | _                  | -         | -         |
| Retail subscribers                                | 11,302          | 11,302    | -                  | -         | -         |
| Corporate subscribers                             | 9,200           | 9,200     | -                  | -         | -         |
| Foreign administrations                           | 4,961           | 4,961     | _                  | -         | -         |
| Domestic carriers                                 | 1,323           | 1,323     | _                  | _         | -         |
| Dealers, agents and others                        | 4,231           | 4,231     | -                  | -         | -         |
| HTM investments:                                  | 508             | 358       | 150                | _         | -         |
| Investment in debt securities and other long-term | investments 508 | 358       | 150                | -         | -         |
| Financial instruments at FVPL:                    | 534             | 534       | _                  | _         | -         |
| Short-term investments                            | 534             | 534       | _                  | _         | _         |
| Available-for-sale financial investments          | 7,181           | -         | -                  | -         | 7,181     |
|   |                 |           | 1.049              |           | 7,228     |

|   |        | Less than |                    |           | More than \$ |
|---|--------|-----------|--------------------|-----------|--------------|
|   | Total  | 1 year    | 1-3 years          | 3-5 years | years        |
|   |        |           | (in million pesos) |           |              |
| January 1, 2011   |        |           |                    |           |              |
| Loans and receivables:  | 63,182 | 62,202    | 897                | 45        | 38           |
| Advances and other noncurrent assets                          | 1,000  | 20        | 897                | 45        | 38           |
| Cash equivalents  | 33,772 | 33,772    | -                  | -         | -            |
| Short-term investments  | 152    | 152       | -                  | -         | -            |
| Retail subscribers  | 8,917  | 8,917     | -                  | -         | -            |
| Corporate subscribers   | 7,998  | 7,998     | -                  | -         | -            |
| Foreign administrations                                       | 4,479  | 4,479     | -                  | -         | -            |
| Domestic carriers   | 1,591  | 1,591     | _                  | -         | -            |
| Dealers, agents and others                                    | 5,273  | 5,273     | -                  | -         | -            |
| HTM investments:  | 484    | -         | 484                | -         | -            |
| Investment in debt securities and other long-term investments | s 484  | -         | 484                | -         | -            |
| Financial instruments at FVPL:                                | 517    | 517       | -                  | -         | -            |
| Short-term investments  | 517    | 517       | _                  | -         | _            |
| Available-for-sale financial investments                      | 147    | -         | -                  | -         | 147          |
| Total   | 64,330 | 62,719    | 1,381              | 45        | 185          |

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at December 31, 2012 and 2011, and January 1, 2011:

|   |              | Pa           | ayments Due by Per | iod       |           |
|---|--------------|--------------|--------------------|-----------|-----------|
|   |              | Less than    |                    |           | More than |
|   | Total        | 1 year       | 1-3 years          | 3-5 years | years     |
|   |              |              | (in million pesos) |           |           |
| December 31, 2012 (As adjusted – Note 2)          |              |              |                    |           |           |
| Debt <sup>(1)</sup> :                             | 144,467      | 3,981        | 56,353             | 48,417    | 35,716    |
| Principal   | 117,115      | 3,641        | 41,469             | 42,492    | 29,513    |
| Interest  | 27,352       | 340          | 14,884             | 5,925     | 6,203     |
| Lease obligations:                                | 13,655       | 7,059        | 3,641              | 1,832     | 1,123     |
| Operating lease                                   | 13,634       | 7,057        | 3,623              | 1,831     | 1,123     |
| Finance lease                                     | 21           | 2            | 18                 | 1         | -         |
| Unconditional purchase obligations <sup>(2)</sup> | 413          | 167          | 246                | -         | -         |
| Other obligations:                                | 105,492      | 80,443       | 12,505             | 10,515    | 2,029     |
| Derivative financial liabilities <sup>(3)</sup> : | 3,507        | 418          | 871                | 2,218     | · -       |
| Long-term currency swap                           | 2,968        | -            | 770                | 2,198     | -         |
| Equity forward sale contract                      | 348          | 348          | _                  | _         | _         |
| Interest rate swap                                | 191          | 70           | 101                | 20        | _         |
| Various trade and other obligations:              | 101.985      | 80.025       | 11.634             | 8.297     | 2.029     |
| Suppliers and contractors                         | 45,331       | 26,128       | 10,942             | 8,261     | _,0_0     |
| Utilities and related expenses                    | 31,305       | 31,098       | 202                | 5         | _         |
| Liability from redemption of preferred shares     | 7,884        | 7,884        | 202                | -         |           |
| Employee benefits                                 | 5.488        | 5.488        |                    | _         |           |
| Customers' deposits                               | 2,529        | 5,466        | 469                | 31        | 2.029     |
| Carriers  | 2,007        | 2,007        | 409                | 51        | 2,029     |
| Dividends   | 2,007<br>827 | 2,007<br>827 | -                  | -         | -         |
| Others  | 6,614        | 6,593        | _<br>21            | -         | -         |
|   | ,            | ,            | 72.745             | 60.764    | -         |
| Total contractual obligations                     | 264,027      | 91,650       | 12,145             | 60,764    | 38,868    |
| December 31, 2011                                 |              |              |                    |           |           |
| Debt <sup>(1)</sup> :                             | 142,271      | 16,378       | 62,213             | 39,476    | 24,204    |
| Principal   | 119,410      | 15,348       | 48.141             | 33,971    | 21,950    |
| Interest  | 22,861       | 1,030        | 14,072             | 5,505     | 2,254     |
| Lease obligations:                                | 17.826       | 6.352        | 5.324              | 2,998     | 3.152     |
| Operating lease                                   | 17.810       | 6.349        | 5.317              | 2,992     | 3,152     |
| Finance lease                                     | 16           | 0,049        | 5,517              | 2,332     | 0,102     |
| Unconditional purchase obligations <sup>(2)</sup> | 674          | 279          | 263                | 132       | _         |
| Other obligations:                                | 91,828       | 66.223       | 14.976             | 7.072     |           |
| Derivative financial liabilities <sup>(3)</sup> : | 3.789        | 589          | 1.026              | 7,072     | 1.473     |
|   | -,           |              | ,                  | 673       | , -       |
| Long-term currency swap                           | 3,552        | 500          | 907                |           | 1,472     |
| Interest rate swap                                | 237          | 89           | 119                | 28        | 1         |
| Various trade and other obligations:              | 88,039       | 65,634       | 13,950             | 6,371     | 2,084     |
| Suppliers and contractors                         | 45,604       | 25,476       | 13,761             | 6,367     | -         |
| Utilities and related expenses                    | 23,839       | 23,834       | 5                  | -         | -         |
| Employee benefits                                 | 4,452        | 4,452        | -                  | -         | -         |
| Dividends   | 2,583        | 2,583        | -                  | -         | -         |
| Customers' deposits                               | 2,272        | -            | 184                | 4         | 2,084     |
| Carriers  | 1,642        | 1,642        | -                  | -         | -         |
| Others  | 7,647        | 7,647        | -                  | -         | -         |
| Total contractual obligations                     | 252,599      | 89,232       | 82,776             | 49.678    | 30,913    |

|   |         | Pa        | yments Due by Pe   | riod      |             |
|---|---------|-----------|--------------------|-----------|-------------|
|   |         | Less than |                    |           | More than 5 |
|   | Total   | 1 year    | 1-3 years          | 3-5 years | years       |
|   |         |           | (in million pesos) |           |             |
| January 1, 2011                                   |         |           |                    |           |             |
| Debt <sup>(1)</sup> :                             | 113,394 | 6,569     | 51,308             | 33,978    | 21,539      |
| Principal   | 92,590  | 6,206     | 38,263             | 29,335    | 18,786      |
| Interest  | 20,804  | 363       | 13,045             | 4,643     | 2,753       |
| Lease obligations:                                | 8,003   | 4,383     | 1,710              | 948       | 962         |
| Operating lease                                   | 7,959   | 4,353     | 1,697              | 947       | 962         |
| Finance lease                                     | 44      | 30        | 13                 | 1         | -           |
| Unconditional purchase obligations <sup>(2)</sup> | 797     | 271       | 263                | 263       | -           |
| Other obligations:                                | 68,782  | 50,247    | 13,963             | 683       | 3,889       |
| Derivative financial liabilities <sup>(3)</sup> : | 4,241   | -         | 1,735              | 674       | 1,832       |
| Long-term currency swap                           | 4,241   | -         | 1,735              | 674       | 1,832       |
| Various trade and other obligations:              | 64,541  | 50,247    | 12,228             | 9         | 2,057       |
| Suppliers and contractors                         | 32,997  | 20,957    | 12,040             | -         | -           |
| Utilities and related expenses                    | 16,477  | 16,446    | 10                 | 3         | 18          |
| Employee benefits                                 | 3,853   | 3,853     | -                  | -         | -           |
| Customers' deposits                               | 2,223   | -         | 178                | 6         | 2,039       |
| Dividends   | 2,086   | 2,086     | -                  | -         | -           |
| Carriers  | 1,866   | 1,866     | -                  | -         | -           |
| Others  | 5,039   | 5,039     | -                  | -         | -           |
| Total contractual obligations                     | 190,976 | 61,470    | 67,244             | 35,872    | 26,390      |

Consists of long-term debt, including current portion, and notes payable; gross of unamortized debt discount and debt issuance costs. Based on the Amended ATPA with AlL. See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AlL Related Party Agreements.

Gross liabilities before any offsetting application.

#### Debt

See Note 20 - Interest-bearing Financial Liabilities - Long-term Debt for a detailed discussion of our debt.

#### **Operating Lease Obligations**

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|   | Decer  | mber 31,           | January 1, |
|---|--------|--------------------|------------|
|   | 2012   | 2011               | 2011       |
|   |        | (in million pesos) |            |
| Within one year                             | 7,136  | 6,423              | 4,469      |
| After one year but not more than five years | 5,375  | 8,235              | 2,528      |
| More than five years                        | 1,123  | 3,152              | 962        |
|   | 13,634 | 17,810             | 7,959      |

## Finance Lease Obligations

See Note 20 - Interest-bearing Financial Liabilities - Obligations under Finance Leases for the detailed discussion of our long-term finance lease obligations.

#### Unconditional Purchase Obligations

See Note 24 - Related Party Transactions - Air Time Purchase Agreement between PLDT and AlL Related Agreements for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php413 million, Php674 million and Php797 million as at December 31, 2012 and 2011, and January 1, 2011, respectively.

## Other Obligations - Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php101,895 million, Php88,039 million and Php64,541 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. See Note 22 - Accounts Payable and Note 23 - Accrued Expenses and Other Current Liabilities.

## Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php342 million, Php913 million and Php1,145 million as at December 31, 2012 and 2011, and January 1, 2011, respectively. These commitments will expire within one year.

## Collateral

We have not made any pledges with respect to our financial liabilities as at December 31, 2012 and 2011, and January 1, 2011.

## Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange sale and purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative conversion adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2012 and 2011, and January 1, 2011:

|   |             | Decem              | nber 31,    |                    | January     | / 1,               |
|---|-------------|--------------------|-------------|--------------------|-------------|--------------------|
|   | 201         | 2                  | 201         | 1                  | 2011        |                    |
|   | U.S. Dollar | Php <sup>(1)</sup> | U.S. Dollar | Php <sup>(2)</sup> | U.S. Dollar | Php <sup>(3)</sup> |
|   |             |                    | (in mil     | lions)             |             |                    |
| Noncurrent Financial Assets                                 |             |                    |             |                    |             |                    |
| Investment in debt securities and other long-term investmer | nts 5       | 205                | -           | -                  | -           | -                  |
| Derivative financial assets                                 |             |                    | -           | -                  | 4           | 178                |
| Advances and other noncurrent assets                        | 1           | 28                 | 2           | 83                 | 3           | 122                |
| Total noncurrent financial assets                           | 6           | 233                | 2           | 83                 | 7           | 300                |
| Current Financial Assets                                    |             |                    |             |                    |             |                    |
| Cash and cash equivalents                                   | 128         | 5,267              | 165         | 7,248              | 138         | 6,050              |
| Short-term investments                                      | 14          | 562                | 12          | 540                | 15          | 652                |
| Trade and other receivables – net                           | 179         | 7,360              | 215         | 9,445              | 214         | 9,361              |
| Derivative financial assets                                 | -           | -                  | 8           | 366                | -           | 5                  |
| Total current financial assets                              | 321         | 13,189             | 400         | 17,599             | 367         | 16,068             |
| Total Financial Assets                                      | 327         | 13,422             | 402         | 17,682             | 374         | 16,368             |

|   |             | Decem              | 1ber 31,    |                    | Januar      | / 1,               |  |
|---|-------------|--------------------|-------------|--------------------|-------------|--------------------|--|
|   | 201         | 2                  | 201         | 1                  | 2011        |                    |  |
| -   | U.S. Dollar | Php <sup>(1)</sup> | U.S. Dollar | Php <sup>(2)</sup> | U.S. Dollar | Php <sup>(3)</sup> |  |
|   |             |                    | (in mill    | lions)             |             |                    |  |
| Noncurrent Financial Liabilities                                |             |                    |             |                    |             |                    |  |
| Interest-bearing financial liabilities - net of current portion | 1,058       | 43,442             | 906         | 39,806             | 782         | 34,244             |  |
| Derivative financial liabilities                                | 68          | 2,802              | 51          | 2,235              | 82          | 3,604              |  |
| Total noncurrent financial liabilities                          | 1,126       | 46,244             | 957         | 42,041             | 864         | 37,848             |  |
| Current Financial Liabilities                                   |             |                    |             |                    |             |                    |  |
| Accounts payable  | 165         | 6,762              | 198         | 8,688              | 169         | 7,415              |  |
| Accrued expenses and other current liabilities                  | 166         | 6,832              | 129         | 5,677              | 143         | 6,267              |  |
| Current portion of interest-bearing financial liabilities       | 221         | 9,065              | 349         | 15,328             | 103         | 4,537              |  |
| Derivative financial liabilities                                | 2           | 70                 | 21          | 924                | -           | -                  |  |
| Total current financial liabilities                             | 554         | 22,729             | 697         | 30,617             | 415         | 18,219             |  |
| Total Financial Liabilities                                     | 1,680       | 68,973             | 1,654       | 72,658             | 1,279       | 56,067             |  |

The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php41.08 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2012. (1)

unruggi une rrimppine beaing system as at December 31, 2012. The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2011. The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.81 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at January 1, 2011.

As at January 6, 2014, the Philippine peso-U.S. dollar exchange rate was Php44.72 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have increased in Philippine peso terms by Php4,925 million as at December 31, 2012.

Approximately 45%, 47% and 43% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at December 31, 2012 and 2011, and January 1, 2011, respectively. Consolidated foreign currency-denominated debt decreased to Php52,298 million as at December 31, 2012 from Php54,877 million as at December 31, 2011 and Php38,414 million as at January 1, 2011. See Note 20 - Interest-bearing Financial Liabilities. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts was US\$202 million as at December 31, 2012 and US\$262 million as at December 31, 2011 and January 1, 2011. Consequently, the unhedged portion of our consolidated debt amounts was approximately 38% (or 33%, net of our consolidated U.S. dollar cash balances), 37% (or 30%, net of our consolidated U.S. dollar cash balances) and 30% (or 23%, net of consolidated U.S. dollar cash balances) as at December 31, 2012 and 2011, and January 1. 2011. respectively.

Approximately, 27% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2012 as compared with approximately 30% each for the years ended December 31, 2011 and 2010. Our consolidated expenses denominated in U.S. dollars and/or linked to U.S. dollars was approximately 16% for the year ended December 31, 2012 as compared with approximately 17% to 19% for the years ended December 31, 2011 and 2010, respectively. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso appreciated by 6.47% against the U.S. dollar to Php41.08 to US\$1.00 as at December 31, 2012 from Php43.92 to US\$1.00 as at December 31, 2011. As at December 31, 2011, the Philippine peso had depreciated by 0.25% against the U.S. dollar to Php43.92 to US\$1.00 from Php43.81 to US\$1.00 as at January 1, 2011. As at January 1, 2011, the Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US\$1.00 from Php46.43 to US\$1.00 as at December 31, 2009. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php3,282 million and Php1,850 million for the years ended December 31, 2012 and 2010, respectively, while we recognized net consolidated foreign exchange losses of Php735 million for the year ended December 31, 2011. See Note 4 - Operating Segment Information.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until our next reporting date of March 31, 2013. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 1.16% as compared to the exchange rate of Php41.08 to US\$1.00 as at December 31, 2012. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 1.16% as at December 31, 2012, with all other variables held constant, profit after tax for the year ended 2012 would have been approximately Php380 million higher/lower and our consolidated stockholders' equity as at year end 2012 would have been approximately Php376 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

## Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2012 and 2011, and January 1, 2011. Financial instruments that are not subject to interest rate risk were not included in the table.

## As at December 31, 2012

|                        |              |                    |            |                      |              |       |         | Discount/<br>Debt |                 |                   |         |
|------------------------|--------------|--------------------|------------|----------------------|--------------|-------|---------|-------------------|-----------------|-------------------|---------|
|                        |              |                    | In U.S. Do | ollars               |              |       |         | Issuance          | Carrying        | Fair              | Value   |
|                        | Below 1 year | 1-2 years          | 2-3 years  | 3-5 years            | Over 5 years | Total | In Php  | Cost<br>In Php    | Value<br>In Php | In U.S.<br>Dollar | In Php  |
| Assets:                |              |                    |            |                      |              |       |         |                   | (in m           | nillions)         |         |
| Investment in Debt     |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Securities and Other   |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Long-term              |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Investments            |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| U.S. Dollar            | -            | -                  | -          | 5                    | -            | 5     | 205     | -                 | 205             | 5                 | 219     |
| Interest rate          | -            | -                  | -          | 4.0000%              | -            | -     | -       | -                 | -               | -                 | -       |
| Philippine Peso        | 4            | -                  | -          | -                    | -            | 4     | 150     | -                 | 150             | 4                 | 154     |
| Interest rate          | 7.0000%      |                    | -          |                      | -            | -     | -       | -                 | -               | -                 | -       |
| Cash in Bank           |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| U.S. Dollar            | 37           | -                  | -          | -                    | -            | 37    | 1,529   | -                 | 1,529           | 37                | 1,529   |
| Interest rate          | 0.0100% to   | -                  | -          | -                    | -            | _     | -       | -                 |                 | -                 | -       |
|                        | 0.7500%      |                    |            |                      |              |       |         |                   |                 |                   |         |
| Philippine Peso        | 84           | -                  | -          | -                    | -            | 84    | 3,445   | -                 | 3,445           | 84                | 3,445   |
| Interest rate          | 0.1000% to   | -                  | -          | -                    | -            | -     | -       | -                 |                 | -                 | -,      |
|                        | 3.0000%      |                    |            |                      |              |       |         |                   |                 |                   |         |
| Other Currencies       | 4            | -                  | -          | -                    | -            | 4     | 161     | -                 | 161             | 4                 | 161     |
| Interest rate          | 0.0100% to   | _                  | -          | _                    | -            | _     | _       | -                 | _               | _                 | -       |
|                        | 0.7500%      |                    |            |                      |              |       |         |                   |                 |                   |         |
| Temporary Cash Investr | nents        |                    |            |                      |              |       |         |                   |                 |                   |         |
| U.S. Dollar            | 74           | -                  | -          | -                    | -            | 74    | 3,062   | -                 | 3,062           | 74                | 3,062   |
| Interest rate          | 0.2500% to   | -                  | -          | _                    | -            | -     |         | -                 |                 |                   |         |
| interest rate          | 4.7500%      |                    |            |                      |              |       |         |                   |                 |                   |         |
| Philippine Peso        | 694          | _                  | -          | _                    | _            | 694   | 28,488  | _                 | 28,488          | 694               | 28,488  |
| Interest rate          | 1.1250% to   |                    |            | _                    | _            | - 034 | 20,400  |                   | 20,400          | 034               | 20,400  |
| interest rate          | 5.0000%      |                    |            |                      |              |       |         |                   |                 |                   |         |
| Short-term Investments |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| U.S. Dollar            | 14           | _                  | -          | _                    | _            | 14    | 557     | _                 | 557             | 14                | 557     |
| Interest rate          | 9.1730%      | -                  | -          | -                    | _            |       |         | _                 |                 |                   |         |
| Philippine Peso        | 5.1700 /0    | _                  | _          | -                    | _            | -     | 17      | _                 | 17              | _                 | 17      |
| Interest rate          | 3.0000%      | -                  | -          | -                    | _            | -     |         | _                 |                 | _                 |         |
| morootrato             | 911          | _                  | -          | 5                    | -            | 916   | 37.614  | -                 | 37,614          | 916               | 37,632  |
|                        |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Liabilities:           |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Long-term Debt         |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Fixed Rate             |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| U.S. Dollar Notes      | -            | -                  | -          | 234                  | -            | 234   | 9,623   | 79                | 9,544           | 283               | 11,644  |
| Interest rate          | -            | -                  | -          | 8.3500%              | -            | _     |         | _                 |                 | _                 | -       |
| U.S. Dollar Fixed      |              |                    |            |                      |              |       |         |                   |                 |                   |         |
| Loans                  | 5            | 337                | 23         | 32                   | 9            | 406   | 16,674  | 1,143             | 15,531          | 410               | 16,843  |
| Interest rate          | 3.7900%      | 1.9000% to         | 1.9000% to | 1.9000% to           | 3.9550%      | _     | _       |                   | _               | _                 |         |
|                        |              | 3.9550%            | 3.9550%    | 3.9550%              |              |       |         |                   |                 |                   |         |
| Philippine Peso        | -            | 35                 | 132        | 522                  | 686          | 1.375 | 56,469  | 45                | 56.424          | 1.475             | 60.576  |
| Interest rate          | -            | 4.9110% to         | 4.9110% to | 4.9110% to           | 4.9110% to   | -     |         |                   |                 | .,                |         |
|                        |              | 7.7946%            | 7.7946%    | 7.7946%              | 7.7946%      |       |         |                   |                 |                   |         |
| Variable Rate          |              | 1.104070           | 1.1040/0   | 1.1040/0             | 1.1040/0     |       |         |                   |                 |                   |         |
| U.S. Dollar            | 27           | 312                | 127        | 175                  | 23           | 664   | 27,278  | 55                | 27,223          | 664               | 27,278  |
| Interest rate          | 0.4000% to   | 0.3000% to         | 0.3000% to | 0.3000% to           | 1.8000%      | - 00  | 2,,270  |                   |                 |                   | 21,210  |
| interest rate          | 0.5000% over | 1.9000% over       | 1.9000%    | 1.9000% over         | over LIBOR   |       | _       | -                 | _               | -                 | -       |
|                        | LIBOR        | LIBOR              | over LIBOR | LIBOR                |              |       |         |                   |                 |                   |         |
| Philippine Peso        | 55           | 45                 |            | LIBOR<br>72          | _            | 172   | 7,071   | 1                 | 7,070           | 172               | 7,071   |
| Interest rate          | PHP PDST-F   | 45<br>PHP PDST-F + | -          | BSP                  |              | 1/2   | 7,071   | 1                 | 1,070           | 172               | 7,071   |
| milerest rate          | + 0.3000%    | 0.3000%            | -          |                      | -            | -     | -       | -                 | -               | -                 | -       |
|                        | + 0.3000%    | 0.3000%            |            | overnight<br>rate +  |              |       |         |                   |                 |                   |         |
|                        |              |                    |            | rate +<br>0.3000% to |              |       |         |                   |                 |                   |         |
|                        |              |                    |            |                      |              |       |         |                   |                 |                   |         |
|                        |              |                    |            | 0.5000%              |              |       |         | 1.000             |                 | ·                 | 100     |
|                        | 87           | 729                | 282        | 1,035                | 718          | 2,851 | 117,115 | 1,323             | 115,792         | 3,004             | 123,412 |

# As at December 31, 2011

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|  |   |  |  |  |   |   |  | Discount/<br>Debt                            |   |                                    |  |
|--|---|--|--|--|---|---|--|--|---|------------------------------------|--|
|  |   | 1.0  | In U.S. Do   |  | 0   | <b>T</b> . 1 . 1  | la Dha   | Issuance<br>Cost                             | Carrying<br>Value                         | Fair \<br>In U.S.                  |  |
|  | Below 1 year  | 1-2 years  | 2-3 years  | 3-5 years  | Over 5 years  | Total   | In Php   | In Php                                       | In Php                                    | Dollar<br>iillions)                | In Php   |
| Assets:  |   |  |  |  |   |   |  |  | (0111                                     | million is)                        |  |
| Investment in Debt   |   |  |  |  |   |   |  |  |   |                                    |  |
| Securities and Other   |   |  |  |  |   |   |  |  |   |                                    |  |
| Long-term  |   |  |  |  |   |   |  |  |   |                                    |  |
| Investments  |   |  |  |  |   |   |  |  |   |                                    |  |
| Philippine Peso  | 8   | 4  | -  | -  | -   | 12  | 508  | -  | 508                                       | 12                                 | 51   |
| Interest rate  | 6.8750%   | 7.0000%  | -  | -  | -   | _   | -  | -  | _   | -                                  |  |
| Cash in Bank   |   |  |  |  |   |   |  |  |   |                                    |  |
| U.S. Dollar  | 14  | -  | -  | -  | -   | 14  | 626  | -  | 626                                       | 14                                 | 62   |
| Interest rate  | 0.0100% to  | -  | -  | -  | -   | -   | _  | -  | _   | -                                  |  |
|  | 0.7663%   |  |  |  |   |   |  |  |   |                                    |  |
| Philippine Peso  | 66  | _  | _  | _  | _   | 66  | 2,886  | _  | 2,886                                     | 66                                 | 2,88   |
| Interest rate  | 0.0100% to  | _  | _  | _  | _   | _   | 2,000  | _  | 2,000                                     | _                                  | 2,00   |
| interest rate  | 3.1500%   |  |  |  |   |   |  |  |   |                                    |  |
| Other Currencies   | 5   | _  | _  | _  | _   | 5   | 218  | _  | 218                                       | 5                                  | 21   |
| Interest rate  | 0.0100% to  | _  | _  | _  | _   | -   | 210  |  | 210                                       | - 5                                | 2  |
| Interest rate  | 2.0000%   | _  | _  | _  | _   | _   | _  | _  | _   | _                                  |  |
| Temporary Cash Investm   |   |  |  |  |   |   |  |  |   |                                    |  |
| U.S. Dollar  | 133   |  |  |  |   | 133   | 5.824  | _  | 5,824                                     | 133                                | 5,82   |
| Interest rate  | 0.2500% to  | -  | -  | -  | -   | 133   | 5,624  | _  | 5,624                                     | 133                                | 0,04   |
| Interest rate  |   | -  | -  | -  | -   | -   | -  | -  | -   | -                                  |  |
|  | 1.7000%   |  |  |  |   |   | 05 500   |  | 05 500                                    |                                    | 05.5   |
| Philippine Peso  | 810   | -  | -  | -  | -   | 810   | 35,596   | -  | 35,596                                    | 810                                | 35,5   |
| Interest rate  | 1.0000% to  | -  | -  | -  | -   | -   | -  | -  | -   | -                                  |  |
|  | 4.8750%   |  |  |  |   |   |  |  |   |                                    |  |
| Short-term Investments   |   |  |  |  |   |   |  |  |   |                                    |  |
| U.S. Dollar  | 12  | -  | -  | -  | -   | 12  | 540  | -  | 540                                       | 12                                 | 54   |
| Interest rate  | 3.1020%   | -  | -  | -  | -   | -   | -  | -  | -   | -                                  |  |
| Philippine Peso  | -   | -  | -  | -  | -   | -   | 18   | -  | 18  | -                                  | 1  |
|  |   |  |  |  |   |   |  |  |   |                                    |  |
| Interest rate  | 3.5000%   | -  | -  | -  | -   | -   | -  | -  | -   | -                                  |  |
| Interest rate  | 3.5000%<br>1,048  | - 4  | -  | -  | -   | 1,052   | 46,216   | -  | 46,216                                    | 1,052                              | 46,22  |
|  |   | - 4  | -  | -  | -   | 1,052   | 46,216   | -  | 46,216                                    | <br>1,052                          | 46,22  |
| Interest rate  |   | - 4  | -  |  | -   | 1,052   | 46,216   | -  | 46,216                                    | 1,052                              | 46,2   |
|  |   | - 4  |  | -  | -   | 1,052   | 46,216   | -  | 46,216                                    | 1,052                              | 46,2   |
| Liabilities:   |   | 4  |  |  | -   | 1,052   | 46,216   | -  | 46,216                                    | 1,052                              | 46,2   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate   | 1,048   | 4  |  |  |   | ·   |  |  |   |                                    | -  |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes  | <b>1,048</b><br>146   | 4  |  |  | -<br>-<br>234<br>8,3500%  |   | 46,216   |  |   |                                    | -  |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate   | 1,048   | 4  |  |  |   | 380   |  |  |   |                                    |  |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed  | <b>1,048</b><br>146   |  | -  | -  | 8.3500%   | 380   | 16,691   | 124  | 16,567                                    | 427                                | 18,7   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans   | <b>1,048</b><br>146<br>11.3750%<br>-  | -<br>-<br>53   | -<br>-<br>302  | -<br>-<br>28   | 8.3500%<br>21   | 380<br>-<br>404   |  | 124<br>_<br>1,900                            |   | 427<br>-<br>359                    | 18,74  |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed  | <b>1,048</b><br>146<br>11.3750%   | -<br>-<br>53<br>2.9900% to   | -<br>-<br>302<br>2.2500% to  | -<br>-<br>28<br>2.9900% to   | 8.3500%   | 380   | 16,691   | 124  | 16,567                                    | 427                                | 18,74  |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate  | 1,048<br>146<br>11.3750%<br>-<br>-  | -<br>-<br>53<br>2.9900% to<br>3.9550%  | -<br>-<br>302<br>2.2500% to<br>3.9550%   | -<br>-<br>28<br>2.9900% to<br>3.9550%  | 8.3500%<br>21<br>3.9550%  | 380<br><br>   | 16,691<br>_<br>17,738<br>_   | 124<br><br>1,900<br>                         | 16,567<br>_<br>15,838<br>_                | 427<br>_<br>359<br>_               | 18,7<br>15,7   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121   | -<br>-<br>53<br>2.9900% to<br>3.9550%<br>137   | -<br>-<br>2.2500% to<br>3.9550%<br>122   | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590   | 8.3500%<br>21<br>3.9550%<br>187   | 380<br>-<br>404   | 16,691   | 124<br>-<br>1,900<br>-<br>38                 | 16,567                                    | 427<br>-<br>359                    | 18,7<br>15,7   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to   | -<br>-<br>2.9900% to<br>3.9550%<br>137<br>5.4692% to   |  | -<br>-<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to   | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to   | 380<br><br>   | 16,691<br>_<br>17,738<br>_   | 124<br><br>1,900<br>                         | 16,567<br>_<br>15,838<br>_                | 427<br>_<br>359<br>_               | 18,74<br>15,71   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121   | -<br>-<br>53<br>2.9900% to<br>3.9550%<br>137   | -<br>-<br>2.2500% to<br>3.9550%<br>122   | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590   | 8.3500%<br>21<br>3.9550%<br>187   | 380<br><br>   | 16,691<br>_<br>17,738<br>_   | 124<br>-<br>1,900<br>-<br>38                 | 16,567<br>_<br>15,838<br>_                | 427<br>_<br>359<br>_               | 18,7<br>15,7   |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%  | -<br>-<br>2.9900% to<br>3.9550%<br>137<br>5.4692% to<br>8.4346%  | -<br>-<br>2.2500% to<br>3.9550%<br>122<br>5.4692% to<br>9.1038%  | -<br>-<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to<br>9.1038%  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%  | 380<br>-<br>404<br>-<br>1,157<br>-                                    | 16,691<br>-<br>17,738<br>-<br>50,818<br>-                              | 124<br>                                      | 16,567<br>-<br>15,838<br>-<br>50,780<br>- | 427<br>-<br>359<br>-<br>1,194<br>- | 18,7<br>15,7<br>52,4                                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11  | -<br>-<br>2.9900% to<br>3.9550%<br>137<br>5.4682% to<br>8.4346%<br>242                                     | -<br>-<br>2.2500% to<br>3.9550%<br>122<br>5.4692% to<br>9.1038%<br>73  | -<br>-<br>2.9900% to<br>3.9550%<br>5.9963% to<br>9.1038%<br>94   | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58  | 380<br>-<br>404<br>-<br>1,157<br>-<br>478                             | 16,691<br>_<br>17,738<br>_   | 124<br>-<br>1,900<br>-<br>38                 | 16,567<br>_<br>15,838<br>_                | 427<br>                            | 18,7<br>15,7<br>52,4                                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate   | 1,048<br>146<br>11.3750%<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                | -<br>  | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR                                      | 380<br>-<br>404<br>-<br>1,157<br>-                                    | 16,691<br>-<br>17,738<br>-<br>50,818<br>-                              | 124<br>                                      | 16,567<br>-<br>15,838<br>-<br>50,780<br>- | 427<br>-<br>359<br>-<br>1,194<br>- | 18,7<br>15,7<br>52,4                                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11  | -<br>-<br>-<br>3.9500% to<br>3.9550%<br>137<br>5.4692% to<br>8.4346%<br>242<br>U\$\$ LIBOR +<br>0.3000% to |  | <br>-<br>28<br>2.9900% to<br>3.9550%<br>5.963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to                                   | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478                             | 16,691<br>-<br>17,738<br>-<br>50,818<br>-                              | 124<br>                                      | 16,567<br>-<br>15,838<br>-<br>50,780<br>- | 427<br>                            | 18,7<br>15,7<br>52,4                                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate   | 1,048<br>146<br>11.3750%<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%  | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  | -<br>-<br>2.9900% to<br>3.9550%<br>5.9963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>1.8000%                            | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR                                      | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1  |  |  | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>1.8000% to<br>1.8000% to     | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478                             | 16,691<br>-<br>17,738<br>-<br>50,818<br>-                              | 124<br>                                      | 16,567<br>-<br>15,838<br>-<br>50,780<br>- | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  | -<br>-<br>2.9900% to<br>3.9550%<br>5.9963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>1.8000%                            | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1  |  |  | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>1.8000% to<br>1.8000% to     | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso<br>Interest rate   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso<br>Interest rate   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso<br>Interest rate   | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>11<br>PDST-F +   | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-<br>229<br>-            | 16,691<br><br>17,738<br><br>50,818<br>-<br>20,996<br>-                 | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9<br>10,0                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Short-term Debt<br>Notes Payable<br>U.S. Dollar  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1<br>PDST-F +<br>1.3750%<br>35                         | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                |  |  | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%                         | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-                        | 16,691<br><br>17,738<br>-<br>50,818<br>-<br>20,996<br>-<br>10,059<br>- | 124<br>-<br>1,900<br>-<br>38<br>-<br>71<br>- | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Short-term Debt<br>Notes Payable                                 | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1<br>PDST-F +<br>1.3750%<br>35<br>Bank's               | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                | -<br>-<br>2.2500% to<br>3.9550%<br>122<br>5.4692% to<br>9.1038%<br>to 1.8500%<br>to 1.8500%<br>to 1.8500%<br>DDST-F +<br>0.3000% | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>0.5000% to<br>0.5000% | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%<br>to 1.8000%<br>-<br>- | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-<br>229<br>-<br>35      | 16,691<br><br>17,738<br>-<br>50,818<br>-<br>20,996<br>-<br>10,059<br>- | 124<br>                                      | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9                               |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Short-term Debt<br>Notes Payable<br>U.S. Dollar<br>Interest rate | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1<br>PDST-F +<br>1.3750%<br>35<br>Bank's<br>prime rate | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                | -<br>-<br>2.2500% to<br>3.9550%<br>122<br>5.4692% to<br>9.1038%<br>to 1.8500%<br>to 1.8500%<br>to 1.8500%<br>DDST-F +<br>0.3000% | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>0.5000% to<br>0.5000% | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>58<br>US\$ LIBOR<br>+ 0.3000%<br>to 1.8000%<br>-<br>- | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-<br>229<br>-<br>35<br>- | 16,691<br>   | 124<br>                                      | 16,567<br>                                | 427<br>                            | 18,7<br>15,7<br>52,4<br>20,9<br>10,0                       |
| Liabilities:<br>Long-term Debt<br>Fixed Rate<br>U.S. Dollar Notes<br>Interest rate<br>U.S. Dollar Fixed<br>Loans<br>Interest rate<br>Philippine Peso<br>Interest rate<br>Variable Rate<br>U.S. Dollar<br>Interest rate<br>Short-term Debt<br>Notes Payable<br>U.S. Dollar  | 1,048<br>146<br>11.3750%<br>-<br>-<br>121<br>5.6250% to<br>6.5708%<br>11<br>US\$ LIBOR +<br>0.7500%<br>1<br>PDST-F +<br>1.3750%<br>35<br>Bank's               | -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-                | -<br>-<br>2.2500% to<br>3.9550%<br>122<br>5.4692% to<br>9.1038%<br>to 1.8500%<br>to 1.8500%<br>to 1.8500%<br>DDST-F +<br>0.3000% | -<br>-<br>28<br>2.9900% to<br>3.9550%<br>590<br>5.4963% to<br>9.1038%<br>94<br>US\$ LIBOR +<br>0.3000% to<br>0.5000% to<br>0.5000% | 8.3500%<br>21<br>3.9550%<br>187<br>5.4963% to<br>9.1038%<br>+ 0.3000%<br>to 1.8000%<br>-<br>-<br>-                | 380<br>-<br>404<br>-<br>1,157<br>-<br>478<br>-<br>229<br>-<br>35      | 16,691<br><br>17,738<br>-<br>50,818<br>-<br>20,996<br>-<br>10,059<br>- | 124<br>                                      | 16,567<br>                                | 427<br>                            | 46,2<br>18,7<br>15,7<br>52,4<br>20,9<br>10,0<br>1,5<br>1,5 |

## As at January 1, 2011

|                                  |              |              |             |              |              |       |        | Discount/        |                 |                   |        |
|----------------------------------|--------------|--------------|-------------|--------------|--------------|-------|--------|------------------|-----------------|-------------------|--------|
|                                  |              |              | In U.S. Dol | lars         |              |       |        | Debt<br>Issuance | Carrying        | Fair V            | alue   |
|                                  | Below 1 year | 1-2 years    | s 2-3 years | 3-5 years    | Over 5 years | Total | In Php | Cost<br>In Php   | Value<br>In Php | In U.S.<br>Dollar | In Php |
|                                  |              |              |             |              |              |       |        |                  | (in milli       | ons)              |        |
| Assets:<br>Investment in Debt    |              |              |             |              |              |       |        |                  |                 |                   |        |
| Securities                       |              |              |             |              |              |       |        |                  |                 |                   |        |
| Philippine Peso                  | _            | _            | 8           | 3            | _            | 11    | 484    | _                | 484             | 11                | 502    |
| Interest rate                    | _            | -            | 6.8750%     | 7.0000%      | _            | -     | -      | _                | -               | _                 |        |
| Cash in Bank                     |              |              | 0.070070    | 1.000070     |              |       |        |                  |                 |                   |        |
| U.S. Dollar                      | 11           | -            | -           | -            | -            | 11    | 474    | -                | 474             | 11                | 474    |
| Interest rate                    | 0.0025% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 0.7840%      |              |             |              |              |       |        |                  |                 |                   |        |
| Philippine Peso                  | 31           | -            | -           | -            | -            | 31    | 1,362  | -                | 1,362           | 31                | 1,362  |
| Interest rate                    | 0.0625% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 2.9000%      |              |             |              |              |       |        |                  |                 |                   |        |
| Other Currencies                 | 3            | -            | -           | -            | -            | 3     | 118    | -                | 118             | 3                 | 118    |
| Interest rate                    | 0.0100% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 2.4000%      |              |             |              |              |       |        |                  |                 |                   |        |
| Temporary Cash Investme          |              |              |             |              |              |       |        |                  |                 |                   |        |
| U.S. Dollar                      | 110          | -            | -           | -            | -            | 110   | 4,813  | -                | 4,813           | 110               | 4,813  |
| Interest rate                    | 0.1000% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 1.7000%      |              |             |              |              |       |        |                  |                 |                   |        |
| Philippine Peso                  | 661          | -            | -           | -            | -            | 661   | 28,959 | -                | 28,959          | 661               | 28,959 |
| Interest rate                    | 1.0000% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
| 0.                               | 4.8100%      |              |             |              |              |       |        |                  |                 |                   |        |
| Short-term Investments           | 45           |              |             |              |              | 45    | 050    | _                | 050             | 45                | 050    |
| U.S. Dollar                      | 15           | _            | -           | _            | _            | 15    | 652    | _                | 652             | 15                | 652    |
| Interest rate                    | 1.9000% to   | -            | -           | -            | -            | -     | -      | -                | -               | -                 | -      |
| Dhilipping Deep                  | 10.672%      |              |             |              |              |       | 17     |                  | 17              |                   | 17     |
| Philippine Peso<br>Interest rate | 3.2500%      | _            | _           | _            | _            | _     | 17     | _                | 17              | _                 | 17     |
| Interest rate                    | 831          |              | 8           | 3            |              | 842   | 36,879 |                  | 36,879          | 842               | 36,897 |
|                                  |              |              | -           |              |              |       |        |                  |                 |                   |        |
| Liabilities:                     |              |              |             |              |              |       |        |                  |                 |                   |        |
| Long-term Debt                   |              |              |             |              |              |       |        |                  |                 |                   |        |
| Fixed Rate                       |              |              |             |              |              |       |        |                  |                 |                   |        |
| U.S. Dollar Notes                | -            | 146          | -           | -            | 234          | 380   | 16,650 | 200              | 16,450          | 440               | 19,274 |
| Interest rate                    | -            | 11.3750%     | -           | _            | 8.3500%      | _     | _      | _                | _               | _                 | -      |
| U.S. Dollar Fixed                |              |              |             |              |              |       |        |                  |                 |                   |        |
| Loans                            | 9            | 29           | 15          | 295          | -            | 348   | 15,264 | 2,586            | 12,678          | 276               | 12,120 |
| Interest rate                    | 4.7000%      | 2.9900% to   | 2.9900% to  | 2.2500% to   | -            | _     | -      | _                | _               | _                 | _      |
|                                  |              | 3.7900%      | 3.7900%     | 2.9900%      |              |       |        |                  |                 |                   |        |
| Philippine Peso                  | 68           | 146          | 121         | 339          | 195          | 869   | 38,066 | 74               | 37,992          | 961               | 42,091 |
| Interest rate                    | 6.0323% to   | 5.6250% to   | 6.5000% to  | 6.5000% to   | 6.5000% to   | _     | _      | _                | _               | _                 | -      |
|                                  | 8.7792%      | 8.4346%      | 8.4346%     | 9.1038%      | 9.1038%      |       |        |                  |                 |                   |        |
| Variable Rate                    |              |              |             |              |              |       |        |                  |                 |                   |        |
| U.S. Dollar                      | 6            | 148          | 45          | 15           | -            | 214   | 9,357  | 71               | 9,286           | 212               | 9,286  |
| Interest rate                    | US\$ LIBOR + | Swap rate +  | Swap rate + | Swap rate +  | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 0.8150%      | 2.7900%;     | 2.7900%;    | 2.7900%;     |              |       |        |                  |                 |                   |        |
|                                  |              | US\$ LIBOR + | US\$ LIBOR  | US\$ LIBOR + |              |       |        |                  |                 |                   |        |
|                                  |              | 0.4200% to   | + 0.4200%   | 1.3500% to   |              |       |        |                  |                 |                   |        |
|                                  |              | 1.8500%      | to 1.8500%  | 1.8500%      |              |       |        |                  |                 |                   |        |
| Philippine Peso                  | 58           | 150          | 74          | 20           | -            | 302   | 13,253 | 13               | 13,240          | 302               | 13,240 |
| Interest rate                    | PDST-F +     | PDST-F +     | PDST-F +    | PDST-F +     | -            | -     | -      | -                | -               | -                 | -      |
|                                  | 0.3000% to   | 0.3000% to   | 0.3000%     | 0.3000%      |              |       |        |                  |                 |                   |        |
|                                  | 1.2500%      | 1.3750%;     |             |              |              |       |        |                  |                 |                   |        |
|                                  |              | AUB's prime  |             |              |              |       |        |                  |                 |                   |        |
|                                  |              | rate         |             |              |              |       |        |                  |                 |                   |        |
|                                  | 141          | 619          | 255         | 669          | 429          | 2,113 | 92,590 | 2.944            | 89,646          | 2.191             | 96,011 |

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of March 31, 2013. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points and 10 basis points higher/lower, respectively, as compared to levels as at December 31, 2012. If U.S. dollar interest rates had been 5 basis points higher/lower as compared to market levels as at December 31, 2012, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2012 would have been approximately Php11 million lower/higher, mainly as a result of higher/lower interest rates had been 10 basis points higher/lower as compared to market levels as at December 31, 2012, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2012 would have been approximately Php11 million lower/higher, mainly as a result of higher/lower interest rates had been 10 basis points higher/lower as compared to market levels as at December 31, 2012, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2012 would have been approximately Php28 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

## Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statements of financial position, including derivative financial instruments as at December 31, 2012 and 2011, and January 1, 2011:

|  |                              |   | Decem                      | ber 31,                      |   |                            |                              | January 1,                                      |                            |
|--|------------------------------|---|----------------------------|------------------------------|---|----------------------------|------------------------------|---|----------------------------|
|  |                              | 2012  |                            |                              | 2011  |                            |                              | 2011  |                            |
|  | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Enhancements* | Net<br>Maximum<br>Exposure | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Enhancements* | Net<br>Maximum<br>Exposure | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Enhancements* | Net<br>Maximum<br>Exposure |
|  |                              |   |                            |                              | (in million pesos)                              |                            |                              |   |                            |
| Loans and receivables:                               |                              |   |                            |                              |   |                            |                              |   |                            |
| Advances and other noncurrent                        |                              |   |                            |                              |   |                            |                              |   |                            |
| assets   | 8,877                        | 12  | 8,865                      | 1,165                        | 13  | 1,152                      | 1,000                        | 1   | 999                        |
| Cash and cash equivalents                            | 37,161                       | 528   | 36,633                     | 46,057                       | 574   | 45,483                     | 36,678                       | 220   | 36,458                     |
| Short-term investments                               | 24                           | -   | 24                         | 24                           | -   | 24                         | 152                          | -   | 152                        |
| Investment in debt securities<br>and other long-term |                              |   |                            |                              |   |                            |                              |   |                            |
| investments  | 205                          | -   | 205                        | -                            | -   | -                          | -                            | -   | -                          |
| Foreign administrations                              | 4,861                        | -   | 4,861                      | 4,762                        | 69  | 4,693                      | 4,321                        | 44  | 4,277                      |
| Retail subscribers                                   | 4.079                        | 27  | 4.052                      | 4.038                        | 63  | 3,975                      | 3.872                        | 73  | 3,799                      |
| Corporate subscribers                                | 1,963                        | 246   | 1.717                      | 2,708                        | 213   | 2,495                      | 2,042                        | 124   | 1.918                      |
| Domestic carriers                                    | 1.601                        | -   | 1,601                      | 1.212                        | _   | 1,212                      | 1,453                        | -   | 1.453                      |
| Dealers, agents and others                           | 3.875                        | 31  | 3.844                      | 3,525                        | 28  | 3,497                      | 4,740                        | -   | 4,740                      |
| HTM investments:                                     | -,                           |   | -,                         | -,                           |   | -,                         | .,                           |   | .,                         |
| Investment in debt securities<br>and other long-term |                              |   |                            |                              |   |                            |                              |   |                            |
| investments  | 150                          | -   | 150                        | 508                          | -   | 508                        | 484                          | -   | 484                        |
| Available-for-sale financial                         |                              |   |                            |                              |   |                            |                              |   |                            |
| investments  | 5,651                        | -   | 5,651                      | 7,181                        | -   | 7,181                      | 147                          | -   | 147                        |
| Financial instruments at FVPL:                       |                              |   |                            |                              |   |                            |                              |   |                            |
| Short-term investments                               | 550                          | -   | 550                        | 534                          | -   | 534                        | 517                          | -   | 517                        |
| Long-term currency swap                              | _                            | -   | _                          | 356                          | _   | 356                        | 178                          | -   | 178                        |
| Bifurcated embedded                                  |                              |   |                            | 200                          |   |                            |                              |   |                            |
| derivatives  | -                            | -   | -                          | -                            | _   | _                          | 5                            | -   | 5                          |
| Derivatives used for hedging:                        |                              |   |                            |                              |   |                            | -                            |   | -                          |
| Forward foreign exchange                             |                              |   |                            |                              |   |                            |                              |   |                            |
| contracts  | _                            | -   | -                          | 10                           | _   | 10                         | -                            | -   | _                          |
| Total  | 68.997                       | 844   | 68,153                     | 72.080                       | 960   | 71.120                     | 55,589                       | 462   | 55.127                     |

\* Includes bank insurance, security deposits and customer deposits. We have no collateral held as at December 31, 2012 and 2011, and January 1, 2011.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2012 and 2011, and January 1, 2011:

|   |        | Neither p<br>nor im    |                        | Past due but |          |
|---|--------|------------------------|------------------------|--------------|----------|
|   | Total  | Class A <sup>(1)</sup> | Class B <sup>(2)</sup> | not impaired | Impaired |
|   |        |                        | (in million pesos      | 3)           |          |
| December 31, 2012                                 |        |                        |                        |              |          |
| Loans and receivables:                            |        |                        |                        |              |          |
| Advances and other noncurrent assets              | 8,989  | 8,848                  | 3                      | 26           | 112      |
| Cash and cash equivalents                         | 37,161 | 34,381                 | 2,780                  | -            | -        |
| Short-term investments                            | 24     | 24                     | -                      | -            | -        |
| Investment in debt securities and other long-term |        |                        |                        |              |          |
| investments                                       | 205    | 205                    | -                      | -            | -        |
| Retail subscribers                                | 10,568 | 967                    | 989                    | 2,123        | 6,489    |
| Corporate subscribers                             | 8,100  | 478                    | 540                    | 945          | 6,137    |
| Foreign administrations                           | 4,960  | 1,043                  | 923                    | 2,895        | 99       |
| Domestic carriers                                 | 1,707  | 266                    | 27                     | 1,308        | 106      |
| Dealers, agents and others                        | 4,334  | 1,498                  | 1,420                  | 957          | 459      |
| HTM investments:                                  |        |                        |                        |              |          |
| Investment in debt securities and other long-term |        |                        |                        |              |          |
| investments                                       | 150    | 150                    | -                      | -            | -        |
| Available-for-sale financial investments          | 5,651  | 159                    | 5,492                  | -            | -        |
| Financial instruments at FVPL <sup>(3)</sup> :    |        |                        |                        |              |          |
| Short-term investments                            | 550    | 550                    | -                      | -            | -        |
| Total   | 82,399 | 48,569                 | 12,174                 | 8,254        | 13,402   |

|   |        | Neither<br>nor in      | Past due but           |              |          |
|---|--------|------------------------|------------------------|--------------|----------|
|   | Total  | Class A <sup>(1)</sup> | Class B <sup>(2)</sup> | not impaired | Impaired |
|   |        |                        | (in million pesos      |              |          |
| December 31, 2011                                 |        |                        | · ·                    | ,            |          |
| Loans and receivables:                            |        |                        |                        |              |          |
| Advances and other noncurrent assets              | 1,165  | 1,128                  | 37                     | -            | -        |
| Cash and cash equivalents                         | 46,057 | 44,885                 | 1,172                  | -            | -        |
| Short-term investments                            | 24     | 24                     | -                      | -            | -        |
| Retail subscribers                                | 11,302 | 1,449                  | 1,050                  | 1,539        | 7,264    |
| Corporate subscribers                             | 9,200  | 974                    | 375                    | 1,359        | 6,492    |
| Foreign administrations                           | 4,961  | 1,309                  | 1,242                  | 2,211        | 199      |
| Domestic carriers                                 | 1,323  | 215                    | 24                     | 973          | 111      |
| Dealers, agents and others                        | 4,231  | 1,705                  | 1,217                  | 603          | 706      |
| HTM investments:                                  |        |                        |                        |              |          |
| Investment in debt securities and other long-term |        |                        |                        |              |          |
| investments                                       | 508    | 508                    | -                      | -            | -        |
| Available-for-sale financial investments          | 7,181  | 150                    | 7,031                  | -            | -        |
| Financial instruments at FVPL <sup>(3)</sup> :    |        |                        |                        |              |          |
| Short-term investments                            | 534    | 534                    | _                      | _            | _        |
| Long-term currency swap                           | 356    | 356                    | _                      | _            | _        |
| Derivatives used for hedging:                     |        |                        |                        |              |          |
| Forward foreign exchange contracts                | 10     | 10                     | _                      | _            | _        |
| Total   | 86,852 | 53,247                 | 12,148                 | 6,685        | 14,772   |
|   |        |                        |                        |              |          |
| January 1, 2011                                   |        |                        |                        |              |          |
| Loans and receivables:                            |        |                        |                        |              |          |
| Advances and other noncurrent assets              | 1,000  | 951                    | 49                     | -            | -        |
| Cash and cash equivalents                         | 36,678 | 35,368                 | 1,310                  | -            | -        |
| Short-term investments                            | 152    | 152                    | -                      | -            | -        |
| Retail subscribers                                | 8,917  | 946                    | 926                    | 2,000        | 5,045    |
| Corporate subscribers                             | 7,998  | 393                    | 612                    | 1,037        | 5,956    |
| Foreign administrations                           | 4,479  | 1,756                  | 699                    | 1,866        | 158      |
| Domestic carriers                                 | 1,591  | 191                    | 23                     | 1,239        | 138      |
| Dealers, agents and others                        | 5,273  | 2,599                  | 2,013                  | 128          | 533      |
| HTM investments:                                  |        |                        |                        |              |          |
| Investment in debt securities                     | 484    | 484                    | -                      | -            | -        |
| Available-for-sale financial assets               | 147    | 108                    | 39                     | -            | -        |
| Financial instruments at FVPL <sup>(3)</sup> :    |        |                        |                        |              |          |
| Short-term investments                            | 517    | 517                    | -                      | -            | -        |
| Long-term currency swap                           | 178    | 178                    | -                      | -            | -        |
| Bifurcated embedded derivatives                   | 5      | 5                      | _                      | -            | -        |
| Total   | 67,419 | 43,648                 | 5,671                  | 6,270        | 11,830   |

This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.
 This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.
 Gross receivables from counterparties, before any offsetting arrangements.

The aging analysis of past due but not impaired class of financial assets as at December 31, 2012 and 2011, and January 1, 2011 are as follows:

|  |        | _                                   | Past      | t due but not imp | paired       |          |
|--|--------|-------------------------------------|-----------|-------------------|--------------|----------|
|  | Total  | Neither past<br>due nor<br>impaired | 1-60 days | 61-90 days        | Over 91 days | Impaired |
|  | Total  | impairea                            |           | illion pesos)     | over of days | imparec  |
| December 31, 2012                        |        |                                     | (01111    | lilloi i pesos)   |              |          |
| Loans and receivables:                   |        |                                     |           |                   |              |          |
| Advances and other noncurrent assets     | 8.989  | 8.851                               | _         | _                 | 26           | 112      |
| Cash and cash equivalents                | 37,161 | 37,161                              | _         | _                 | -            |          |
| Short-term investments                   | 24     | 24                                  | _         | _                 | _            | _        |
| Investment in debt securities and other  | 24     | 24                                  | _         | _                 | _            | -        |
| long-term investments                    | 205    | 205                                 | _         | _                 | _            | _        |
| Retail subscribers                       | 10,568 | 1,956                               | 1,363     | 270               | 490          | 6,489    |
| Corporate subscribers                    | 8.100  | 1,018                               | 351       | 198               | 396          | 6.137    |
| Foreign administrations                  | 4,960  | 1,966                               | 645       | 452               | 1.798        | 99       |
| Domestic carriers                        | 1,707  | 293                                 | 174       | 144               | 990          | 106      |
| Dealers, agents and others               | 4,334  | 2.918                               | 484       | 15                | 458          | 459      |
| HTM investments:                         | .,     | 2,010                               |           |                   | 100          |          |
| Investment in debt securities and other  |        |                                     |           |                   |              |          |
| long-term investments                    | 150    | 150                                 | _         | _                 | -            | -        |
| Available-for-sale financial investments | 5,651  | 5,651                               | -         | -                 | _            | -        |
| Financial instruments at FVPL:           |        |                                     |           |                   |              |          |
| Short-term investments                   | 550    | 550                                 | -         | -                 | -            | -        |
| Total                                    | 82,399 | 60,743                              | 3,017     | 1,079             | 4,158        | 13,402   |

|  |        | _                   | Past due but not impaired |               |              |          |  |
|--|--------|---------------------|---------------------------|---------------|--------------|----------|--|
|  |        | Neither past        |                           |               |              |          |  |
|  | Total  | due nor<br>impaired | 1-60 days                 | 61-90 days    | Over 91 days | Impaired |  |
|  | Total  | impaireu            |                           | illion pesos) | Over 91 uays | Impaireu |  |
| December 31, 2011                        |        |                     | (01111                    | mon pesos)    |              |          |  |
| Loans and receivables:                   |        |                     |                           |               |              |          |  |
| Advances and other noncurrent assets     | 1,165  | 1,165               | _                         | -             | _            | -        |  |
| Cash and cash equivalents                | 46.057 | 46.057              | _                         | -             | _            | -        |  |
| Short-term investments                   | 24     | 24                  | _                         | -             | _            | _        |  |
| Retail subscribers                       | 11,302 | 2,499               | 1,202                     | 226           | 111          | 7,264    |  |
| Corporate subscribers                    | 9.200  | 1.349               | 706                       | 263           | 390          | 6,492    |  |
| Foreign administrations                  | 4,961  | 2,551               | 897                       | 282           | 1,032        | 199      |  |
| Domestic carriers                        | 1.323  | 239                 | 100                       | 98            | 775          | 111      |  |
| Dealers, agents and others               | 4,231  | 2.922               | 182                       | 199           | 222          | 706      |  |
| HTM investments:                         | 1,201  | 2,022               | 102                       | 100           |              | 100      |  |
| Investment in debt securities and other  |        |                     |                           |               |              |          |  |
| long-term investments                    | 508    | 508                 | _                         | _             | _            | _        |  |
| Available-for-sale financial investments | 7.181  | 7.181               | _                         | _             | _            | _        |  |
| Financial instruments at FVPI :          | 7,101  | 7,101               |                           |               |              |          |  |
| Short-term investments                   | 534    | 534                 | _                         | _             | _            | _        |  |
| Long-term currency swap                  | 356    | 356                 |                           |               |              |          |  |
| Derivatives used for hedging:            | 350    | 330                 | -                         | -             | -            | -        |  |
| Forward foreign exchange contracts       | 10     | 10                  | _                         | _             | _            | _        |  |
| Total                                    | 86,852 | 65,395              | 3,087                     | 1.068         | 2,530        | 14,772   |  |
|  | ,      | ,                   | -,                        | .,            | _,           | ,=       |  |
| January 1, 2011                          |        |                     |                           |               |              |          |  |
| Loans and receivables:                   |        |                     |                           |               |              |          |  |
| Advances and other noncurrent assets     | 1.000  | 1.000               | _                         | -             | _            | _        |  |
| Cash and cash equivalents                | 36,678 | 36,678              | -                         | -             | -            | -        |  |
| Short-term investments                   | 152    | 152                 | _                         | -             | _            | _        |  |
| Retail subscribers                       | 8,917  | 1,872               | 1,387                     | 150           | 463          | 5,045    |  |
| Corporate subscribers                    | 7.998  | 1.005               | 642                       | 159           | 236          | 5,956    |  |
| Foreign administrations                  | 4,479  | 2,455               | 616                       | 393           | 857          | 158      |  |
| Domestic carriers                        | 1,591  | 214                 | 165                       | 182           | 892          | 138      |  |
| Dealers, agents and others               | 5,273  | 4.612               | 21                        | 20            | 87           | 533      |  |
| HTM investments:                         | 0,210  | 1,012               |                           | 20            | 01           | 000      |  |
| Investment in debt securities            | 484    | 484                 | _                         | -             | _            | _        |  |
| Available-for-sale financial assets      | 147    | 147                 | _                         | -             | _            | -        |  |
| Financial instruments at FVPL:           | 1.17   |                     |                           |               |              |          |  |
| Short-term investments                   | 517    | 517                 | _                         | _             | _            | -        |  |
| Long-term currency swap                  | 178    | 178                 | _                         | _             | _            | _        |  |
| Bifurcated embedded derivatives          | 5      | 5                   | -                         | -             | _            | _        |  |
| Total                                    | 67,419 | 49,319              | 2,831                     | 904           | 2,535        | 11,830   |  |

## Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

#### Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

## Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core EPS. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We did not buy back any shares of common stock in 2012.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated 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). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2012 and 2011, and January 1, 2011:

|   | Decem    | December 31,         |         |
|---|----------|----------------------|---------|
|   | 2012     | 2011                 | 2011    |
|   |          | As Adjusted – Note 2 | 2)      |
|   |          | (in million pesos)   |         |
| Long-term debt, including current portion (Note 20) | 115,792  | 114,166              | 89,646  |
| Notes payable (Note 20)                             | -        | 3,109                | -       |
| Total consolidated debt                             | 115,792  | 117,275              | 89,646  |
| Cash and cash equivalents (Note 15)                 | (37,161) | (46,057)             | (36,678 |
| Short-term investments                              | (574)    | (558)                | (669    |
| Net consolidated debt                               | 78,057   | 70,660               | 52,299  |
| Equity attributable to equity holders of PLDT       | 145,550  | 153,860              | 97,416  |
| Net consolidated debt to equity ratio               | 54%      | 46%                  | 54%     |

## 28. Cash Flow Information

The table below shows non-cash activities for the years ended December 31, 2012, 2011 and 2010:

|  | 2012  | 2011               | 2010   |
|--|-------|--------------------|--------|
|  |       | (in million pesos) |        |
| Shares issued for settlement of the purchase price of Digitel shares tendered by |       |                    |        |
| the noncontrolling Digitel stockholders  | 4,401 | 64,492             | -      |
| Put option liability for the mandatory tender offer (Notes 13 and 23)            | · _   | 4,940              | -      |
| Liability from redemption of preferred shares which consists of the following:   |       |                    |        |
| Preferred shares redeemed (Note 19)  | 4,029 | -                  | -      |
| Unclaimed dividends from stock agent form part of trust account                  | 2,323 | -                  | -      |
| Unpaid dividends for preferred shares redeemed                                   | 1,821 | -                  | -      |
| Recognition of asset retirement obligations (Note 21)                            | 290   | 29                 | 49     |
| Transfer of Meralco shares to Beacon (Note 10)                                   | -     | -                  | 15,083 |



CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2013 (UNAUDITED), DECEMBER 31, 2012 AND JANUARY 1, 2012 (AS ADJUSTED) AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in million pesos)

|   | As at September 30,<br>2013 | As at December 31, 2012 | As at January<br>2012 |  |
|---|-----------------------------|-------------------------|-----------------------|--|
|   | (Unaudited)                 | (As Adju                | sted*)                |  |
| ASSETS  |                             |                         |                       |  |
| Noncurrent Assets   |                             |                         |                       |  |
| Property, plant and equipment (Notes 3, 5, 9, 12 and 20)  | 191,578                     | 200,078                 | 200,142               |  |
| Investments in associates, joint ventures and deposits<br>(Notes 3, 4, 10 and 24)                                       | 35.038                      | 27,077                  | 17,865                |  |
| Available-for-sale financial investments (Notes 6, 10 and 27)   | 5.673                       | 5.651                   | 7,181                 |  |
| Investment in debt securities and other long-term investments –   | 5,075                       | 5,001                   | 7,101                 |  |
| net of current portion (Notes 11 and 27)  | 778                         | 205                     | 150                   |  |
| Investment properties (Notes 3, 6, 9 and 12)  | 712                         | 712                     | 1,115                 |  |
| Goodwill and intangible assets (Notes 3, 4 and 14)  | 74,273                      | 74,250                  | 83,303                |  |
| Deferred income tax assets - net (Notes 3, 4 and 7)   | 9,706                       | 7,225                   | 5,117                 |  |
| Derivative financial assets (Note 27)   | 22                          | -                       | -                     |  |
| Prepayments – net of current portion (Notes 3, 5, 18, 24 and 25)  | 5,946                       | 4,500                   | 11,697                |  |
| Advances and other noncurrent assets – net of current portion (Note 27)   | 2,473                       | 1,376                   | 1,340                 |  |
| Total Noncurrent Assets   | 326,199                     | 321,074                 | 327,910               |  |
| Current Assets  |                             |                         |                       |  |
| Cash and cash equivalents (Notes 15 and 27)   | 29,779                      | 37,161                  | 46,057                |  |
| Short-term investments (Note 27)  | 595                         | 574                     | 558                   |  |
| Trade and other receivables (Notes 3, 5, 16, 24 and 27)   | 16,808                      | 16,379                  | 16,245                |  |
| Inventories and supplies (Notes 3, 4, 5 and 17)<br>Current portion of investment in debt securities and other long-term | 2,869                       | 3,467                   | 3,827                 |  |
| investments (Notes 11 and 27)   | 91                          | 150                     | 358                   |  |
| Current portion of prepayments (Note 18)  | 5,990                       | 5,144                   | 6,345                 |  |
| Current portion of advances and other noncurrent assets   | 0,000                       | 0,111                   | 0,010                 |  |
| (Notes 19, 27 and 28)   | 8,131                       | 8,116                   | 492                   |  |
|   | 64,263                      | 70,991                  | 73,882                |  |
| Assets classified as held-for-sale (Notes 2, 3, 4 and 10)   | 355                         | 13,750                  | -                     |  |
| Total Current Assets  | 64,618                      | 84,741                  | 73,882                |  |
| TOTAL ASSETS  | 390,817                     | 405,815                 | 401,792               |  |

#### EQUITY AND LIABILITIES

| Equity  |         |         |         |
|---|---------|---------|---------|
| Non-voting serial preferred stock (Notes 8, 19, 27 and 28)        | 360     | 360     | 4,419   |
| Voting preferred stock (Note 19)                                  | 150     | 150     | -       |
| Common stock (Notes 8, 19, 27 and 28)                             | 1,093   | 1,093   | 1,085   |
| Treasury stock (Notes 8, 19 and 27)                               | (6,505) | (6,505) | (6,505) |
| Capital in excess of par value                                    | 130,562 | 130,566 | 127,246 |
| Retained earnings (Note 19)                                       | 16,516  | 25,416  | 26,160  |
| Other comprehensive income (Note 6)                               | (2,839) | (3,387) | 1,455   |
| Reserves of a disposal group classified as held-for-sale (Note 2) | -       | (2,143) | -       |
| Total Equity Attributable to Equity Holders of PLDT (Note 27)     | 139,337 | 145,550 | 153,860 |
| Noncontrolling interests (Note 6)                                 | 223     | 184     | 386     |
| TOTAL EQUITY  | 139,560 | 145,734 | 154,246 |

\* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and January 1, 2012, and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued) (in million pesos)

|   | As at September 30,<br>2013 | As at December 31, 2012 | As at January 1<br>2012 |
|---|-----------------------------|-------------------------|-------------------------|
|   | (Unaudited)                 | (As Adjı                | isted*)                 |
| Noncurrent Liabilities  |                             |                         |                         |
| Interest-bearing financial liabilities – net of current portion         |                             |                         |                         |
| (Notes 3, 4, 5, 9, 20, 23 and 27)                                       | 95,208                      | 102,821                 | 91,280                  |
| Deferred income tax liabilities – net (Notes 3, 4 and 7)                | 4,359                       | 5,713                   | 7,078                   |
| Derivative financial liabilities (Note 27)                              | 1,962                       | 2,802                   | 2,235                   |
| Customers' deposits (Note 27)   | 2,555                       | 2,529                   | 2,272                   |
| Pension and other employee benefits (Notes 3, 5, 23 and 25)             | 3,174                       | 1,982                   | 552                     |
| Deferred credits and other noncurrent liabilities                       |                             |                         |                         |
| (Notes 3, 5, 9, 21, 23, 27 and 28)                                      | 21,705                      | 21,950                  | 22,642                  |
| Total Noncurrent Liabilities  | 128,963                     | 137,797                 | 126,059                 |
| Current Liabilities   |                             |                         |                         |
| Accounts payable (Notes 22, 24, 26 and 27)                              | 28,724                      | 30,451                  | 29,554                  |
| Accrued expenses and other current liabilities                          |                             |                         |                         |
| (Notes 3, 10, 14, 19, 20, 21, 23, 24, 25, 26, 27 and 28)                | 73,085                      | 71,624                  | 58,271                  |
| Current portion of interest-bearing financial liabilities               |                             |                         |                         |
| (Notes 3, 4, 5, 9, 20, 23 and 27)                                       | 14,258                      | 12,989                  | 26,009                  |
| Provision for claims and assessments (Notes 3 and 26)                   | 1,555                       | 1,555                   | 1,555                   |
| Dividends payable (Notes 19 and 27)                                     | 1,054                       | 827                     | 2,583                   |
| Derivative financial liabilities (Note 27)                              | 117                         | 418                     | 924                     |
| Income tax payable (Note 7)   | 3,501                       | 1,809                   | 2,591                   |
|   | 122,294                     | 119,673                 | 121,487                 |
| Liabilities directly associated with assets classified as held-for-sale |                             |                         |                         |
| (Notes 2 and 4)   | _                           | 2,611                   | -                       |
| Total Current Liabilities   | 122,294                     | 122,284                 | 121,487                 |
| TOTAL LIABILITIES   | 251,257                     | 260,081                 | 247,546                 |
| TOTAL EQUITY AND LIABILITIES  | 390,817                     | 405,815                 | 401,792                 |

\* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and January 1, 2012, and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED INCOME STATEMENTS For the Nine Months and Three Months Ended September 30, 2013 and 2012 (in million pesos, except earnings per common share amounts)

|   |                                | nths Ended<br>mber 30,             |                          | nths Ended<br>mber 30,       |
|---|--------------------------------|------------------------------------|--------------------------|------------------------------|
| -   | 2013                           | 2012                               | 2013                     | 2012                         |
|   | <i></i>                        | (Unaudited and                     | <i>a.</i>                | (Unaudited ar                |
|   | (Unaudited)                    | as Adjusted*)                      | (Unaudited)              | as Adjusted'                 |
| REVENUES  |                                |                                    |                          |                              |
| Service revenues (Notes 2, 3 and 4)   | 121,604                        | 119,050                            | 40,567                   | 39,321                       |
| Non-service revenues (Notes 3, 4 and 5)   | 2,981                          | 2,313                              | 1,017                    | 806                          |
|   | 124,585                        | 121,363                            | 41,584                   | 40,127                       |
| EXPENSES  |                                |                                    |                          |                              |
| Depreciation and amortization (Notes 3, 4 and 9)  | 22,180                         | 22,957                             | 7,648                    | 7,668                        |
| Compensation and employee benefits (Notes 3, 5 and 25)  | 16,517                         | 16,632                             | 5,518                    | 5,285                        |
| Repairs and maintenance (Notes 12, 17 and 24)   | 9,524                          | 9,624                              | 2,990                    | 3,217                        |
| Cost of sales (Notes 5, 17 and 24)  | 8,532                          | 6,381                              | 2,994                    | 1,898                        |
| Interconnection costs (Note 2)  | 7,865                          | 8,243                              | 2,509                    | 2,684                        |
| Selling and promotions (Note 24)  | 6,598                          | 6,850                              | 2,313                    | 2,537                        |
| Professional and other contracted services (Note 24)  | 4,546                          | 3,894                              | 1,714                    | 1,284                        |
| Rent (Notes 3, 24 and 27)   | 4,224                          | 4,349                              | 1,373                    | 1,631                        |
| Taxes and licenses (Note 26)  | 2,588                          | 2,725                              | 872                      | 859                          |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)  | 2,120                          | 1,793                              | 729                      | 609                          |
| Communication, training and travel  | 1,570                          | 1,522                              | 507                      | 497                          |
| Insurance and security services (Note 24)   | 1,117                          | 1,112                              | 362                      | 405                          |
| Amortization of intangible assets (Notes 3, 4 and 14)   | 736                            | 1.019                              | 283                      | 307                          |
| Other expenses (Note 24)  | 1,103                          | 1,033                              | 303                      | 380                          |
|   | 89,220                         | 88,134                             | 30.115                   | 29.261                       |
|   | 35,365                         | 33,229                             | 11,469                   | 10,866                       |
| OTHER INCOME (EXPENSES)<br>Equity share in net earnings of associates and joint ventures<br>(Notes 4 and 10)<br>Interest income (Notes 4, 5, 11 and 15)<br>Gains (losses) on derivative financial instruments – net (Notes 4 and 27)<br>Foreign exchange gains (losses) – net (Notes 4, 9 and 27) | 1,903<br>680<br>492<br>(2,004) | 1,440<br>1,008<br>(1,560)<br>2,424 | 803<br>195<br>44<br>(82) | 129<br>389<br>(1,123)<br>818 |
| Financing costs – net (Notes 4, 5, 9, 20 and 27)  | (5,245)                        | (4,985)                            | (1,918)                  | (1,621)                      |
| Other income (Notes 4 and 18)   | 2,006                          | 4,712                              | 148                      | 1,570                        |
|   | (2,168)                        | 3,039                              | (810)                    | 162                          |
| INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS   |                                |                                    |                          |                              |
| (Note 4)  | 33,197                         | 36,268                             | 10,659                   | 11,028                       |
| PROVISION FOR INCOME TAX (Notes 2, 3, 4 and 7)  | 6,271                          | 8,272                              | 1,594                    | 2,037                        |
|   |                                |                                    |                          | ,                            |
| NET INCOME FROM CONTINUING OPERATIONS (Note 4)  | 26,926                         | 27,996                             | 9,065                    | 8,991                        |
| NET INCOME FROM DISCONTINUED OPERATIONS (Notes 2, 4 and 8)  | 2,069                          | 363                                | 206                      | 117                          |
| NET INCOME (Note 4)   | 28,995                         | 28,359                             | 9,271                    | 9,108                        |
| ATTRIBUTABLE TO:  |                                |                                    |                          |                              |
| Equity holders of PLDT (Notes 4 and 8)  | 28,954                         | 28,384                             | 9,247                    | 9,102                        |
| Noncontrolling interests (Notes 4 and 8)  | 41                             | (25)                               | 24                       | 6                            |
| × · · · /   | 28,995                         | 28,359                             | 9,271                    | 9,108                        |
| Earnings Per Share Attributable to Common Equity Holders of PLDT<br>(Notes 4 and 8)   | ·                              |                                    | ·                        |                              |
| Basic   | 133.81                         | 131.20                             | 42.72                    | 42.07                        |
| Diluted   | 133.81                         | 131.20                             | 42.72                    | 42.07                        |
| Earnings Per Share for Continuing Operations Attributable to<br>Common Equity Holders of PLDT (Note 8)  |                                |                                    |                          |                              |
| Basic   | 124.23                         | 129.52                             | 41.76                    | 41.52                        |
| Diluted   | 124.23                         | 129.52                             | 41.76                    | 41.52                        |

Certain amounts shown here do not correspond to the consolidated financial statements for the nine months and three months ended September 30, 2012 and reflect adjustments made as detailed in Note 2 - Summary of Significant Accounting Policies - Discontinued Operations and Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME For the Nine Months and Three Months Ended September 30, 2013 and 2012 (in million pesos)

|  | Nine Months Ended<br>September 30, |                                 | Three Months Ender<br>September 30, |                                 |
|--|------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
|  | 2013                               | 2012                            | 2013                                | 2012                            |
|  | (Unaudited)                        | (Unaudited and<br>as Adjusted*) | (Unaudited)                         | (Unaudited and<br>as Adjusted*) |
| NET INCOME (Note 4)  | 28,995                             | 28,359                          | 9,271                               | 9,108                           |
| OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX (Note 6)  |                                    |                                 |                                     |                                 |
| Net gains (losses) on available-for-sale financial investments (Note 10):<br>Gains (losses) from changes in fair value recognized during the | 6                                  | 16                              | (19)                                | 13                              |
| period (Note 10)   | 8                                  | 17                              | (19)                                | 14                              |
| Income tax related to fair value adjustments charged directly to   |                                    |                                 |                                     |                                 |
| equity   | (2)                                | (1)                             | -                                   | (1)                             |
| Foreign currency translation differences of subsidiaries   | 752                                | (685)                           | (34)                                | (134)                           |
| Net transactions on cash flow hedges:  | 68                                 | (1,260)                         | 249                                 | (1,298)                         |
| Net fair value gains (losses) on cash flow hedges (Note 27)  | 144                                | (1,284)                         | 371                                 | (1,322)                         |
| Income tax related to fair value adjustments charged directly to   |                                    |                                 |                                     |                                 |
| equity   | (76)                               | 24                              | (122)                               | 24                              |
| Net other comprehensive income (loss) to be reclassified to profit or  |                                    |                                 |                                     |                                 |
| loss in subsequent periods   | 826                                | (1,929)                         | 196                                 | (1,419)                         |
| Democratic stratic in actuality and a defined base fit   |                                    |                                 |                                     |                                 |
| Remeasurement gains in actuarial gains on defined benefit  | 452                                |                                 | (70)                                |                                 |
| obligations  |                                    | - (1)                           | (79)                                | -                               |
| Revaluation increment on investment properties (Notes 9 and 12):   | (1)                                | (1)                             | -                                   | _                               |
| Income tax related to revaluation increment charged directly to  | 1                                  | 1                               |                                     | -                               |
| equity<br>Depreciation of revaluation increment in investment property   | 1                                  | I                               | 1                                   | 1                               |
|  | (2)                                | (2)                             | (1)                                 | (1)                             |
| transferred to property, plant and equipment<br>Net other comprehensive income (loss) reclassified directly to                               | (2)                                | (2)                             | (1)                                 | (1)                             |
| retained earnings in subsequent periods  | 451                                | (1)                             | (79)                                |                                 |
| Total Other Comprehensive Income (Loss) – Net of Tax   | 1.277                              | (1,930)                         | 117                                 | (1.419)                         |
| TOTAL COMPREHENSIVE INCOME   | 30,272                             | 26,429                          | 9,388                               | 7,689                           |
|  | 30,272                             | 20,429                          | 9,300                               | 7,009                           |
|  | 00.007                             | 00 454                          | 0.004                               | 7 000                           |
| Equity holders of PLDT   | 30,237                             | 26,454                          | 9,364<br>24                         | 7,683                           |
| Noncontrolling interests   | 35                                 | (25)                            |                                     | 6                               |
|  | 30,272                             | 26,429                          | 9,388                               | 7,689                           |

\* Certain amounts shown here do not correspond to the consolidated financial statements for the nine months and three months ended September 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY For the Nine Months Ended September 30, 2013 and 2012 (in million pesos)

|   | Preferred<br>Stock | Common<br>Stock | Treasury<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Other<br>Comprehensive<br>Income | Reserves of a<br>Disposal Group<br>Classified as<br>Held-for-Sale | Total Equity<br>Attributable to<br>Equity Holders I<br>of PLDT | Noncontrolling<br>Interests | Total<br>Equity |
|---|--------------------|-----------------|-------------------|--------------------------------------|----------------------|----------------------------------|---|--|-----------------------------|-----------------|
| Balances as at January 1, 2013,<br>as previously presented                                    | 510                | 1,093           | (6,505)           | 130,566                              | 24,794               | 790                              | (2,188)   | 149,060  | 182                         | 149,242         |
| Effect of changes in accounting<br>policies for employee benefits<br>(Note 2)                 | _                  | _               | _                 | -                                    | 622                  | (4,177)                          | 45  | (3,510)  | 2                           | (3,508)         |
| Balances as at January 1, 2013,<br>as adjusted  | 510                | 1,093           | (6,505)           | 130,566                              | 25,416               | (3,387)                          | (2,143)   | 145,550  | 184                         | 145,734         |
| Total comprehensive income:   | -                  | -               | -                 | -                                    | 28,954               | 1,283                            | -   | 30,237   | 35                          | 30,272          |
| Net income (Notes 4 and 8)  | -                  | -               | -                 | -                                    | 28,954               | -                                | -   | 28,954   | 41                          | 28,995          |
| Other comprehensive income<br>(Note 6)  | -                  | -               | -                 | -                                    | -                    | 1,283                            | -   | 1,283  | (6)                         | 1,277           |
| Cash dividends (Note 19)  | -                  | -               | -                 | -                                    | (37,854)             | -                                | -   | (37,854)   | (13)                        | (37,867)        |
| Discontinued operations<br>(Notes 2 and 6)  | _                  | _               | _                 | -                                    | -                    | (735)                            | 2,143   | 1,408  | -                           | 1,408           |
| Acquisition and dilution of<br>noncontrolling interests<br>(Notes 2 and 13)                   | -                  | -               | -                 | (4)                                  | -                    | -                                | _   | (4)  | (6)                         | (10)            |
| Others (Notes 2 and 13)   | -                  | -               | -                 | -                                    | -                    | -                                | -   | -  | 23                          | 23              |
| Balances as at September 30, 2013<br>(Unaudited)  | 510                | 1,093           | (6,505)           | 130,562                              | 16,516               | (2,839)                          | -   | 139,337  | 223                         | 139,560         |
| Balances as at January 1, 2012,<br>as previously presented<br>Effect of changes in accounting | 4,419              | 1,085           | (6,505)           | 127,246                              | 26,232               | (644)                            | -   | 151,833  | 386                         | 152,219         |
| policies for employee benefits<br>(Note 2)  | -                  | -               | -                 | -                                    | (72)                 | 2,099                            | -   | 2,027  | -                           | 2,027           |
| Balances as at January 1, 2012,<br>as adjusted  | 4,419              | 1,085           | (6,505)           | 127,246                              | 26,160               | 1,455                            | -   | 153,860  | 386                         | 154,246         |
| Total comprehensive income:   | -                  | -               | -                 | -                                    | 28,384               | (1,930)                          | -   | 26,454   | (25)                        | 26,429          |
| Net income (Notes 4 and 8)  | -                  | -               | -                 | -                                    | 28,384               | -                                | -   | 28,384   | (25)                        | 28,359          |
| Other comprehensive loss<br>(Note 6)  | _                  | _               | _                 | _                                    | -                    | (1,930)                          | -   | (1,930)  | -                           | (1,930)         |
| Cash dividends (Note 19)  | -                  | -               | -                 | -                                    | (36,983)             | -                                | -   | (36,983)   | -                           | (36,983)        |
| Issuance of capital stock –<br>net of conversion (Note 19)                                    | (30)               | 8               | _                 | 4,423                                | -                    | -                                | -   | 4,401  | -                           | 4,401           |
| Redemption of preferred shares<br>(Note 19)   | (4,029)            | _               | _                 | _                                    | _                    | -                                | -   | (4,029)  | -                           | (4,029)         |
| Acquisition and dilution of<br>noncontrolling interests<br>(Notes 2 and 13)                   | _                  | _               | _                 | (1,090)                              | _                    | -                                | _   | (1,090)  | (180)                       | (1,270)         |
| Others (Note 2)   | -                  | -               | -                 | -                                    | -                    | -                                | -   | -  | 40                          | 40              |
| Balances as at September 30, 2012<br>(Unaudited and as Adjusted*)                             | 360                | 1,093           | (6,505)           | 130,579                              | 17,561               | (475)                            | _   | 142,613  | 221                         | 142,834         |

\* Certain amounts shown here do not correspond to the consolidated financial statements for the nine months ended September 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures. See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS For the Nine Months Ended September 30, 2013 and 2012 (in million pesos)

|  | 2013         | 2012           |
|--|--------------|----------------|
|  | (Lineudited) | (Unaudited and |
|  | (Unaudited)  | as Adjusted*)  |
| CASH FLOWS FROM OPERATING ACTIVITIES   |              |                |
| Income before income tax and noncontrolling interest from continuing operations            | 33,197       | 36,268         |
| Income before income tax and noncontrolling interest from discontinued operations (Note 2) | 2,124        | 622            |
| Income before income tax (Note 4)  | 35,321       | 36,890         |
| Adjustments for:   |              |                |
| Depreciation and amortization (Notes 3, 4 and 9)   | 22,333       | 23,304         |
| Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 27)                 | 3,406        | 3,979          |
| Asset impairment (Notes 3, 4, 5, 9, 10, 16, 17 and 27)                                     | 2,122        | 1,793          |
| Foreign exchange losses (gains) – net (Notes 4, 9 and 27)                                  | 2,000        | (2,403)        |
| Accretion on financial liabilities – net (Notes 5, 20 and 27)                              | 1,514        | 795            |
| Incentive plans (Notes 3, 5 and 25)  | 1,278        | 1,250          |
| Amortization of intangible assets (Notes 3 and 14)   | 791          | 1,158          |
| Pension benefit costs (Notes 3, 5 and 25)  | 719          | 551            |
| Losses (gains) on disposal of property, plant and equipment (Note 9)                       | 106          | (73)           |
| Losses (gains) on derivative financial instruments - net (Notes 4 and 27)                  | (493)        | 1,532          |
| Interest income (Notes 4, 5 and 15)  | (683)        | (1,019)        |
| Equity share in net earnings of associates and joint ventures (Notes 4 and 10)             | (1,766)      | (1,440)        |
| Gain on disposal of investment available-for-sale  | (2,404)      | (2,016)        |
| Others   | (1,304)      | (1,842)        |
| Operating income before changes in assets and liabilities                                  | 62,940       | 62,459         |
| Decrease (increase) in:  | 02,340       | 02,400         |
| Trade and other receivables  | 166          | (3,576)        |
| Inventories and supplies   | 616          | 1.007          |
| Prepayments  | (1,564)      | 225            |
| Advances and other noncurrent assets   | (1,564)      |                |
|  | 07           | (38)           |
| Increase (decrease) in:  | (0.004)      | (1.400)        |
| Accounts payable   | (2,324)      | (1,406)        |
| Accrued expenses and other current liabilities   | 1,819        | 4,908          |
| Pension and other employee benefits  | (2,275)      | (1,250)        |
| Customers' deposits  | 26           | 263            |
| Other noncurrent liabilities   | (22)         | (196)          |
| Net cash flows generated from operations   | 59,449       | 62,396         |
| ncome taxes paid   | (7,844)      | (7,574)        |
| Net cash flows from operating activities   | 51,605       | 54,822         |
| CASH FLOWS FROM INVESTING ACTIVITIES   |              |                |
| Interest received  | 742          | 980            |
| Dividends received (Note 10)   | 426          | 752            |
| Proceeds from:   |              |                |
| Disposal of investments – net of cash of deconsolidated subsidiaries                       | 12,075       | -              |
| Sale of net assets held-for-sale   | 1,009        | 919            |
| Maturity of investment in debt securities  | 150          | -              |
| Disposal of property, plant and equipment (Note 9)   | 107          | 150            |
| Disposal of available-for-sale investments   | _            | 3,567          |
| Payments for:  |              | - ,            |
| Purchase of short-term investments   | (3)          | (23)           |
| Purchase of shares of noncontrolling interest (Note 13)                                    | (7)          | (772)          |
| Purchase of investments available-for-sale   | (15)         | (4)            |
| Acquisition of intangibles (Note 4)  | (13)         | (+)            |
| Purchase of investment in debt securities  | (651)        | -              |
|  |              | (0.050)        |
| Purchase of investments in associates, joint ventures and deposits (Note 10)               | (5,594)      | (8,956)        |
| Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 27)    | (526)        | (699)          |
| Increase in notes receivable   | (1,024)      | -              |
| Additions to property, plant and equipment (Notes 4 and 9)                                 | (14,362)     | (18,595)       |
| Decrease in advances and other noncurrent assets   | (67)         | (84)           |
| Net cash flows used in investing activities  | (8,001)      | (22,765)       |

Certain amounts shown here do not correspond to the consolidated financial statements for the nine months ended September 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures.

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) For the Nine Months Ended September 30, 2013 and 2012 (in million pesos)

|  | 2013        | 2012<br>(Unaudited and<br>as Adjusted*) |  |
|--|-------------|---|--|
|  | (Unaudited) |   |  |
| CASH FLOWS FROM FINANCING ACTIVITIES                       |             |   |  |
| Proceeds from:   |             |   |  |
| Availments of long-term debt (Note 20)                     | 31,701      | 40,892                                  |  |
| Availments of long-term financing for capital expenditures | 8,663       | 5,305                                   |  |
| Notes payable (Note 20)                                    | -           | 557                                     |  |
| Issuance of capital stock                                  | -           | 48                                      |  |
| Payments for:  |             |   |  |
| Redemption of shares                                       | (5)         | -                                       |  |
| Obligations under finance leases                           | (9)         | (7)                                     |  |
| Debt issuance costs (Note 20)                              | (146)       | (57)                                    |  |
| Derivative financial instruments (Note 27)                 | (427)       | (918)                                   |  |
| Interest – net of capitalized portion (Notes 5, 20 and 27) | (3,832)     | (4,195)                                 |  |
| Long-term financing for capital expenditures               | (8,490)     | (7,297)                                 |  |
| Cash dividends (Note 19)                                   | (37,634)    | (36,854)                                |  |
| Long-term debt (Note 20)                                   | (42,473)    | (27,036)                                |  |
| Redemption of liabilities                                  | -           | (247)                                   |  |
| Notes payable (Note 20)                                    | -           | (3,713)                                 |  |
| Trust fund for redemption of shares (Note 19)              | _           | (5,603)                                 |  |
| Net cash flows used in financing activities                | (52,652)    | (39,125)                                |  |
| NET EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND    |             |   |  |
| CASH EQUIVALENTS   | 531         | (355)                                   |  |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                  | (8,517)     | (7,423)                                 |  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD       | 38,296      | 46,057                                  |  |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD             | 29,779      | 38,634                                  |  |
| Continuing operations                                      | 29,779      | 37,320                                  |  |
| Discontinued operations (Note 2)                           | -           | 1,314                                   |  |

\* Certain amounts shown here do not correspond to the consolidated financial statements for the nine months ended September 30, 2012 and reflect adjustments made as detailed in Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures.

See accompanying Notes to Consolidated Financial Statements.

## 1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or the Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, certain subsidiaries of First Pacific Company Limited, or First Pacific, and its Philippine affiliates (collectively the First Pacific Group and its Philippine affiliates), acquired a significant interest in PLDT. On March 24, 2000. NTT Communications Corporation, or NTT Communications. through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DOCOMO, Inc., or NTT DOCOMO, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT's outstanding common stock as at September 30, 2013. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represented an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's and its Philippine affiliates' beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. Since then, First Pacific Group's beneficial ownership interest in PLDT decreased by approximately 2%, mainly due to the holders of Exchangeable Notes, which were issued in 2005 by a subsidiary of First Pacific and exchangeable into PLDT shares owned by First Pacific Group, who fully exchanged their notes. First Pacific Group and its Philippine affiliates had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at September 30, 2013. On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., or JGSHI, and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. As at September 30, 2013, the JG Summit Group owned approximately 8% of PLDT's outstanding common shares.

On October 16, 2012, BTF Holdings, Inc., or BTFHI, a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund, or BTF, created pursuant to PLDT's Benefit Plan, subscribed to 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at September 30, 2013. See Note 19 – Equity – Voting Preferred Stock and Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, Inc., or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". There were approximately 45 million ADSs outstanding as at September 30, 2013.

PLDT and our Philippine-based fixed line and wireless subsidiaries operate under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered and certain rates charged to customers.

We are the leading telecommunications service provider in the Philippines. Through our three business segments, wireless, fixed line and others, we offer the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line and satellite networks. Our principal activities are discussed in *Note 4 – Operating Segment Information*.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

## 2. Summary of Significant Accounting Policies

#### **Basis of Preparation**

Our consolidated financial statements as at and for the nine months ended September 30, 2013 have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Our consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments, available-for-sale financial investments and investment properties that have been measured at fair values.

Our consolidated financial statements include adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the nine months ended September 30, 2013 are not necessarily indicative of the results of operations that may be expected for the full year.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million, except when otherwise indicated.

#### **Basis of Consolidation**

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Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at September 30, 2013:

|  | Place of                  |   | Percentage of Ownership |          |
|--|---------------------------|---|-------------------------|----------|
| Name of Subsidiary   | Incorporation             | Principal Business Activity   | Direct                  | Indirect |
|  |                           |   |                         |          |
| Wireless   |                           |   |                         |          |
| Smart:   | Philippines               | Cellular mobile services  | 100.0                   |          |
| Smart Broadband, Inc., or SBI, and<br>Subsidiary   | Philippines               | Internet broadband distribution services  | -                       | 100.0    |
| Primeworld Digital Systems, Inc., or PDSI  | Philippines               | Internet broadband distribution services  | -                       | 100.0    |
| I-Contacts Corporation   | Philippines               | Call center services  | -                       | 100.0    |
| Wolfpac Mobile, Inc., or Wolfpac   | Philippines               | Mobile applications development and services  | -                       | 100.0    |
| Wireless Card, Inc.  | Philippines               | Promotion of the sale and/or patronage of debit and/or<br>charge cards  | -                       | 100.0    |
| Smart e-Money, Inc., or SeMI (formerly<br>Smarthub, Inc., or SHI) <sup>(a)</sup>                     | Philippines               | Software development and sale of maintenance and<br>support services  | -                       | 100.0    |
| Smart Money Holdings Corporation,<br>or SMHC:  | Cayman Islands            | Investment company  | -                       | 100.0    |
| Smart Money, Inc., or SMI  | Cavman Islands            | Mobile commerce solutions marketing   | _                       | 100.0    |
| Far East Capital Limited and Subsidiary,<br>or FECL Group  | Cayman Islands            | Cost effective offshore financing and risk management<br>activities for Smart   | -                       | 100.0    |
| PH Communications Holdings Corporation   | Philippines               | Investment company  | -                       | 100.0    |
| Francom Holdings, Inc.:  | Philippines               | Investment company  | _                       | 100.0    |
| Connectivity Unlimited Resource<br>Enterprise, or CURE   | Philippines               | Cellular mobile services  | -                       | 100.0    |
| Chikka Holdings Limited, or Chikka, and<br>Subsidiaries, or Chikka Group                             | British Virgin<br>Islands | Mobile applications development and services;<br>Content provider   | -                       | 100.0    |
| Smarthub Pte. Ltd., or SHPL:   | Singapore                 | Investment company  | -                       | 100.0    |
| Takatack Pte. Ltd. (formerly SmartConnect<br>Global Pte. Ltd., or SGP <sup>(b)</sup>                 | Singapore                 | International trade of satellites and Global System for<br>Mobile Communication, or GSM, enabled global<br>telecommunications | -                       | 100.0    |
| 3rd Brand Pte. Ltd., or 3rd Brand  | Singapore                 | Solutions and systems integration services  | -                       | 85.0     |
| Voyager Innovations, Inc., or Voyager <sup>(c)</sup>   | Philippines               | Mobile applications development and services  | -                       | 100.0    |
| Telesat, Inc. <sup>(d)</sup>   | Philippines               | Satellite communications services   | 100.0                   | _        |
| ACeS Philippines Cellular Satellite Corporation,<br>or ACeS Philippines                              | Philippines               | Satellite information and messaging services  | 88.5                    | 11.5     |
| Mabuhay Investment Corporation<br>(formerly Mabuhay Satellite Corporation),<br>or MIC <sup>(6)</sup> | Philippines               | Investment company  | 67.0                    | -        |
| Digitel Mobile Philippines, Inc., or DMPI,<br>a wholly-owned subsidiary of Digitel                   | Philippines               | Cellular mobile services  | -                       | 99.5     |

|  | Place of                  |   | Percentage ( | of Ownership |
|--|---------------------------|---|--------------|--------------|
| Name of Subsidiary   | Incorporation             | Principal Business Activity   | Direct       | Indirect     |
| Fixed Line   |                           |   |              |              |
| PLDT Clark Telecom, Inc., or ClarkTel  | Philippines               | Telecommunications services   | 100.0        | _            |
| PLDT Subic Telecom, Inc., or SubicTel  | Philippines               | Telecommunications services   | 100.0        | -            |
| PLDT Global Corporation, or PLDT Global, and<br>Subsidiaries   | British Virgin<br>Islands | Telecommunications services   | 100.0        | -            |
| Smart-NTT Multimedia, Inc. <sup>(d)</sup>  | Philippines               | Data and network services   | 100.0        | -            |
| PLDT-Philcom, Inc., or Philcom, and<br>Subsidiaries, or Philcom Group                                    | Philippines               | Telecommunications services   | 100.0        | -            |
| ePLDT, Inc., or ePLDT <sup>(e)</sup> :   | Philippines               | Information and communications infrastructure for internet-<br>based services, e-commerce, customer relationship<br>management and information technology, or IT,<br>related services | 100.0        | -            |
| IP Converge Data Services, Inc., or IPCDSI <sup>(g)</sup>  | Philippines               | Information and communications infrastructure for internet-<br>based services, e-commerce, customer relationship<br>management and IT related services                                | -            | 100.0        |
| ABM Global Solutions, Inc., or AGS, and<br>Subsidiaries, or AGS Group <sup>(h)</sup>                     | Philippines               | Internet-based purchasing, IT consulting and professional<br>services   | -            | 99.2         |
| ePDS, Inc., or ePDS  | Philippines               | Bills printing and other related value-added services, or VAS   | -            | 67.0         |
| netGames, Inc., or netGames®   | Philippines               | Gaming support services   | -            | 57.5         |
| Digitel:   | Philippines               | Telecommunications services   | 99.5         | -            |
| Digitel Capital Philippines Ltd., or DCPL®   | British Virgin<br>Islands | Telecommunications services   | -            | 99.5         |
| Digitel Information Technology<br>Services, Inc. <sup>(k)</sup>  | Philippines               | Internet services   | -            | 99.5         |
| PLDT-Maratel, Inc., or Maratel   | Philippines               | Telecommunications services   | 98.0         | -            |
| Bonifacio Communications Corporation, or BCC   | Philippines               | Telecommunications, infrastructure and related VAS  | 75.0         | -            |
| Pilipinas Global Network Limited, or PGNL,<br>and Subsidiaries   | British Virgin<br>Islands | International distributor of Filipino channels and content  | 60.0         | -            |
| Others   |                           |   |              |              |
| PLDT Global Investments Holdings, Inc.,<br>or PGIH (formerly SPi Global Holdings, Inc.) <sup>()(m)</sup> | Philippines               | Investment company  | 100.0        | -            |
| SPi Global Investments Limited, or SGIL  | British Virgin<br>Islands | Investment company  | -            | 100.0        |
| PLDT Global Investments Corporation, or PGIC   | British Virgin<br>Islands | Investment company  | -            | 100.0        |
| PLDT Communications and Energy Ventures, Inc.,<br>or PCEV  | Philippines               | Investment company  | -            | 99.8         |

On July 9, 2013, by the majority vote of the Board of Directors and Stockholders, SHI filed with Philippine Securities and Exchange Commission, or Philippine SEC the amended Articles of Incorporation changing the registered business name of SHI to Smart e-Money, Inc., or SeMI.

(b) On September 29, 2013, by a special resolution of the Board of Directors, SGP resolved to change its registered business name to Takatack Pte. Ltd. On January 7, 2013, Voyager was incorporated in the Philippine SEC to provide mobile applications development and services.

Ceased commercial operations

Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC's Articles of Incorporation changing its (e) name from Mabuhay Satellite Corporation to Mabuhay Investment Corporation and its primary purpose from satellite communication to holding company. On June 11, 2012, MySecureSign, Inc., or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company.

On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.

ePLDT's ownership in AGS from 97.1% to 99.2%. (h)

Ceased commercial operations in January 2013.

Liquidated in January 2013.

Corporate life shortened until June 2013.

On June 3, 2013, the Philippine SEC approved the change in the name of SPi Global Holdings, Inc. to PLDT Global Investments Holdings, Inc. (m)

On December 4, 2012, our Board of Directors authorized the sale of our Business Process Outsourcing, or BPO, segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The sale of the BPO segment was completed on April 30, 2013. See – Discontinued Operations and Note 3 - Management's Use of Accounting Judgments, Estimates and Assumptions - Discontinued Operations.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases. We control an investee when we are exposed, or has rights, to variable returns from our involvement with the investee and when we have the ability to affect those returns through our power over the investee.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Noncontrolling interests share in losses even if the losses exceed the noncontrolling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

# PCEV's Common Stock

On November 2, 2011, the Board of Directors of PCEV authorized PCEV's management to take such steps necessary for the voluntary delisting of PCEV from the PSE in accordance with the PSE Rules on Voluntary Delisting. On December 2, 2011, PCEV's Board of Directors also created a special committee to review and evaluate any tender offer to be made by Smart (as the owner of 99.51% of the outstanding common shares of PCEV) to purchase the shares owned by the remaining noncontrolling shareholders representing 0.49% of the outstanding common stock of PCEV. Smart's 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 at that time. The aggregate cost of the tender offer paid by Smart to noncontrolling shareholders on April 30, 2012 amounted to Php115 million. PCEV filed its petition with the PSE 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.

Following the voluntary delisting of the common stock of PCEV from the PSE on May 18, 2012, PCEV's Board of Directors and stockholders approved on June 6, 2012 and July 31, 2012, respectively, the following resolutions and amendments to the articles of incorporation of PCEV to decrease the authorized capital stock of PCEV, increase the par value of PCEV's common stock (and thereby decrease the number of shares of such common stock) and decrease the number of shares of preferred stock of PCEV as follows:

|                                | Prior to Amendments |                  | After Amendments |                    |                  |           |
|--------------------------------|---------------------|------------------|------------------|--------------------|------------------|-----------|
|                                | Authorized Capital  | Number of Shares | Par Value        | Authorized Capital | Number of Shares | Par Value |
| Common Stock                   | Php12,060,000,000   | 12,060,000,000   | Php1             | Php12,060,006,000  | 574,286          | Php21,000 |
| Class I Preferred Stock        | 240,000,000         | 120,000,000      | 2                | 66,661,000         | 33,330,500       | 2         |
| Class II Preferred Stock       | 500,000,000         | 500,000,000      | 1                | 50,000,000         | 50,000,000       | 1         |
| Total Authorized Capital Stock | Php12,800,000,000   |                  |                  | Php12,176,667,000  |                  |           |

The decrease in authorized capital and amendments to the articles of incorporation were subject to approval of the Philippine SEC, which approval was received on October 8, 2012. As a result of the increase in the par value of PCEV common stock, each multiple of 21,000 shares of PCEV common stock, par value Php1, was reduced to one PCEV share of common stock, with a par value of Php21,000. Shareholdings of less than 21,000 shares or in excess of an integral multiple of 21,000 shares of PCEV which could not be replaced with fractional shares were paid the fair value of such residual shares equivalent to Php4.50 per share of pre-amendments PCEV common stock, the same amount as the tender offer price paid by Smart during the last tender offer conducted from March 19 to April 18, 2012.

As a consequence of the foregoing, the number of outstanding shares of PCEV common stock decreased to approximately 555,716 from 11,683,156,455 (exclusive of treasury shares). The number of holders of PCEV common stock decreased to 123 as at September 30, 2013 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart's percentage of ownership in PCEV stood at 99.8% as at September 30, 2013.

# 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 approximately 51.6% of the outstanding common stock of Digitel to PLDT. The approval of the application was subject to conditions which included the divestment by PLDT of CURE, in accordance with the Divestment Plan, as follows:

- CURE must sell its Red Mobile business to Smart consisting primarily of its subscriber base, brand and fixed assets; and
- Smart will sell all of its rights and interests in CURE whose remaining assets will consist of its congressional franchise, 10 MHz of 3G frequency in the 2100 band and related permits.

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, CURE's only remaining assets as at June 30, 2012 were its congressional franchise, the 10 MHz of 3G frequency in the 2100 band and related permits.

In a letter dated September 10, 2012, Smart informed the NTC that the minimum Cost Recovery Amount, or CRA, 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 an auction sale of CURE's shares of stock to the winning bidder and submitted CURE's audited financial statements as at June 30, 2012 to the NTC. In a letter dated January 21, 2013, the NTC proposed the referral to commissioners of the computation of the CRA due Smart. Smart sent a reply agreeing to the proposal and is awaiting advice from the NTC on the bidding and auction of the 3G license of CURE.

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at September 30, 2013 and December 31, 2012, but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

# Corporate Merger of MSSI and ePLDT

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

## ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT and IP Ventures, Inc., or IPVI, and IPVG Employees, Inc., or IEI, entered into a Sale and Purchase Agreement whereby ePLDT acquired 100% of the issued and outstanding capital stock of IPCDSI and advances to IPCDSI for a total adjusted purchase price of Php693 million. See *Note 13 – Business Combinations – ePLDT's Acquisition of IPCDSI*.

## ePLDT's Acquisition of Shares of AGS' Minority Stockholders

In December 2012 and January 2013, ePLDT acquired an additional 5.67% equity interest in AGS from its minority shareholders for a total consideration of Php5 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 99.2%.

## **Discontinued Operations**

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we entered into preliminary negotiations with a potential buyer and should the negotiations with a potential buyer not lead to a sale, we expect to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the nine months ended September 30, 2012 to present the results of operations of our BPO business as discontinued operations. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations.

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

The results of the BPO segment, net of intercompany transactions, classified as discontinued operations for the four months ended April 30, 2013 (closing period of the sale) and for the nine months ended September 30, 2012 are as follows:

|  | 2013        | 2012     |
|--|-------------|----------|
|  | (Unaud      | dited)   |
|  | (in millior | i pesos) |
| Revenues (Notes 3 and 4)                               | 3,132       | 6,742    |
| Expenses:  |             |          |
| Compensation and employee benefits (Notes 3, 5 and 25) | 2,047       | 4,197    |
| Professional and other contracted services (Note 24)   | 267         | 455      |
| Depreciation and amortization (Notes 3 and 9)          | 153         | 347      |
| Repairs and maintenance (Notes 12, 17 and 24)          | 129         | 289      |
| Communication, training and travel                     | 118         | 262      |
| Rent (Notes 3 and 27)                                  | 86          | 204      |
| Amortization of intangible assets (Notes 3 and 14)     | 55          | 139      |
| Selling and promotions                                 | 27          | 57       |
| Insurance and security services (Note 24)              | 21          | 47       |
| Taxes and licenses (Note 26)                           | 14          | 44       |
| Other expenses (Note 24)                               | 57          | 85       |
|  | 2,974       | 6,126    |
|  | 158         | 616      |
| Other income (expenses):                               |             |          |
| Foreign exchange gains (losses) – net (Notes 9 and 27) | 4           | (21)     |
| Interest income (Notes 5, 11 and 15)                   | 3           | 11       |
| Gains on derivative financial instruments – net        | 1           | 28       |
| Financing costs (Notes 5, 9, 20 and 27)                | (4)         | (23)     |
| Other income (loss) (Note 18)                          | 1,962       | 11       |
|  | 1,966       | 6        |
| Income before income tax from discontinued operations  | 2,124       | 622      |
| Provision for income tax (Notes 2, 3 and 7)            | 55          | 259      |
| Income after tax from discontinued operations (Note 4) | 2,069       | 363      |
|  |             |          |
| Earnings per share (Notes 4 and 8):                    | 0.50        | 4.00     |
| Basic – income from discontinued operations            | 9.58        | 1.68     |
| Diluted – income from discontinued operations          | 9.58        | 1.68     |

As indicated above, the sale of BPO segment was completed on April 30, 2013. Thus, our consolidated statement of financial position does not include any assets and liabilities of the BPO segment as at September 30, 2013. Below are the major classes of assets and liabilities of BPO segment, net of intercompany transactions, classified as held-for-sale as at December 31, 2012:

|   | 2012               |
|---|--------------------|
|   | (As Adjusted*)     |
|   | (in million pesos) |
| Assets:   |                    |
| Property, plant and equipment (Notes 3 and 9)                             | 1,529              |
| Available-for-sale financial investments (Notes 6 and 10)                 | 2                  |
| Goodwill and intangible assets (Notes 3 and 14)                           | 7,033              |
| Deferred income tax assets – net (Note 7)                                 | 212                |
| Prepayments – net of current portion                                      | 9                  |
| Advances and other noncurrent assets – net of current portion             | 117                |
| Cash and cash equivalents   | 1,135              |
| Trade and other receivables (Note 16)                                     | 2,704              |
| Derivative financial assets (Note 27)                                     | 68                 |
| Current portion of prepayments  | 296                |
| Current portion of advances and other noncurrent assets                   | 7                  |
| Assets classified as held-for-sale  | 13,112             |
| Liabilities:  |                    |
| Interest-bearing financial liabilities – net of current portion (Note 20) | 425                |
| Deferred income tax liabilities – net (Note 7)                            | 147                |
| Pension and other employee benefits (Notes 3 and 25)                      | 221                |
| Accounts payable  | 481                |
| Accrued expenses and other current liabilities                            | 885                |
| Current portion of interest-bearing financial liabilities (Note 20)       | 278                |
| Dividends payable   | 6                  |
| Derivative financial liabilities (Note 27)                                | 7                  |
| Income tax payable  | 161                |
| Liabilities directly associated with assets classified as held-for-sale   | 2,611              |
| Net assets directly associated with disposal group                        | 10,501             |
| Included in other comprehensive income:                                   |                    |
| Net transactions on cash flow hedges – net of tax (Note 6)                | 62                 |
| Actuarial gains on defined benefit plans                                  | 45                 |
| Foreign currency translation differences of subsidiaries (Note 6)         | (2,250)            |
| Reserves of a disposal group classified as held-for-sale                  | (2,143)            |

\* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 2 – Changes in Accounting Policies and Disclosures.

The net cash flows generated by the BPO segment for the four months ended April 30, 2013 (closing period of sale) and for the nine months ended September 30, 2012 are as follows:

|  | 2013        | 2012               |  |
|--|-------------|--------------------|--|
|  | (Unaud      | (Unaudited)        |  |
|  | (in million | (in million pesos) |  |
| Operating activities   | 144         | 1,676              |  |
| Investing activities   | (1,202)     | (373)              |  |
| Financing activities   | (10)        | (530)              |  |
| Net effect of foreign exchange rate changes on cash and cash equivalents | (67)        | (33)               |  |
| Net cash inflow (outflow)  | (1,135)     | 740                |  |

# PLDT's Acquisition of Subscription Assets of Digitel

On July 1, 2013, PLDT entered into an agreement to acquire the subscription assets of Digitel for a total cost of approximately Php5.3 billion. The agreement covers the transfer, assignment and conveyance of Digitel's subscription agreements and subscriber list, and includes a transition mechanism to ensure uninterrupted availability of services to the Digitel subscribers until migration to the PLDT network is completed. This transaction has no impact on our consolidated financial statements.

## Changes in Accounting Policies and Disclosures

Our accounting policies adopted in the preparation of our consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as at January 1, 2013:

Amendments to PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights of set–off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set–off in accordance with PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar arrangement", irrespective of whether they are set–off in accordance with PAS 32. The amendments affect disclosures only and have no impact on our financial position or performance. The additional disclosure required by the amendments is presented in Note 27 – Financial Assets and Liabilities.

**PFRS 10, Consolidated Financial Statements.** *PFRS 10* replaces the portion of *PAS 27, Consolidated and Separate Financial Statements,* which addresses the accounting for consolidated financial statements. It also includes the issues raised in *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities. PFRS 10* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *PFRS 10* will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in *PAS 27.* 

As a result of the adoption of *PFRS 10*, we changed our accounting policy with respect to determining whether we have control over and consequently whether we consolidate our investees. *PAS 10* introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if, and only if, we have: (1) the power over the investee, i.e., the investor has existing rights that give it the ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns; (2) the exposure, or rights, to variable returns from its involvement with the investees; and (3) the ability to use its power over the investee to affect the amount of the investor's returns.

In accordance with the transitional provisions of *PFRS 10*, we re-assessed the control conclusion for our investees beginning January 1, 2013 and based on the reassessment there were no additional investees that should be consolidated on the basis of the above circumstances and therefore, the adoption of this revised standard has no impact on our financial position or performance.

**PFRS 11, Joint Arrangements.** PFRS 11 superseded PAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers. PFRS 11 removes the option to account for jointly controlled entities, or JCEs, using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

As a result of the adoption of *PFRS 11*, we changed our accounting policy with respect to our interest in joint arrangements.

Under *PFRS 11*, we classified our interest in joint arrangements as either joint operations or joint ventures depending on our rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, we consider the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

We re-evaluated our involvement in our joint arrangements and assessed that its classification as joint ventures is in accordance with *PFRS 11* and therefore, the adoption of this revised standard has no impact on our financial position or performance.

**PFRS 12, Disclosure of Interests in Other Entities.** *PFRS 12* includes all of the disclosures that were previously in *PAS 27* related to consolidated financial statements, as well as all of the disclosures that were previously included in *PAS 31* and *PAS 28, Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The adoption of the revised standard has no significant impact on our consolidated financial statements. See also Note 2 – Summary of Significant Accounting Policies – Basis of Consolidation and Note 10 – Investments in Associates, Joint Venture and Deposits for a more comprehensive disclosure about our interest in subsidiaries, associates and joint ventures. The impact of the adoption affects disclosures only.

**PFRS 13, Fair Value Measurement.** *PFRS 13* establishes a single source of guidance under PFRS for all fair value measurements. *PFRS 13* does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. *PFRS 13* defines fair value as an exit price. As a result of the guidance in *PFRS 13*, we reassessed our policies for measuring fair values, in particular, our valuation inputs such as non-performance risk for fair value measurement of liabilities. *PFRS 13* also requires additional disclosures.

The impact of the adoption affects disclosures only.

**Revised PAS 19, Employee Benefits.** Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. On January 1, 2013, we adopted the Revised PAS 19.

The Revised *PAS 19* requires all actuarial gains and losses under defined benefit plans to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised *PAS* 19, we recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised *PAS* 19, we changed our accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised *PAS 19* replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised *PAS 19* also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised *PAS 19* modified the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The changes in our accounting policies as a result of the adoption of the Revised PAS 19 have been applied retrospectively.

Consequently, we reviewed our existing employee benefits and determined that the revised standard has significant impact on our accounting for defined benefit retirement plans. We obtained the services of an external actuary to compute the impact on the consolidated financial statements upon adoption of the standard and have increased (decreased) the following accounts in our consolidated statements of financial position as at December 31, 2012 and January 1, 2012 and our consolidated statement of income for the nine months ended September 30, 2012:

|   | As at December 31,<br>2012 | As at January 1,<br>2012 |
|---|----------------------------|--------------------------|
|   | (in million                | pesos)                   |
| Increase (decrease) in:   |                            |                          |
| Consolidated Statements of Financial Position                           |                            |                          |
| Prepaid benefit costs under prepayments – net of current portion        | (6,393)                    | 2,828                    |
| Accrued benefit costs under pension and other employee benefits         | 160                        | (57)                     |
| Accrued benefit costs under liabilities directly associated with assets |                            |                          |
| classified as held-for-sale   | (18)                       | -                        |
| Assets classified as held-for-sale                                      | (2)                        | -                        |
| Deferred income tax assets – net  | 1,908                      | (858)                    |
| Other comprehensive income – net of tax                                 | (4,177)                    | 2,099                    |
| Reserves of a disposal group classified as held-for-sale                | 45                         | _                        |
| Retained earnings   | (499)                      | (72)                     |
| Noncontrolling interests  | 2                          | _                        |

|   | For the Nine Months Ended<br>September 30, 2012 |
|---|---|
|   | (in million pesos)                              |
| Consolidated Income Statement                               |   |
| Net benefit costs under pension and other employee benefits | 183   |
| Net benefit income under other income                       | (161)   |
| Income tax expense  | (102)   |
| Income after tax from discontinued operations               | (88)  |
| Profit attributable to equity holders of PLDT               | (330)   |

Our adoption of this standard also affected the recognition of termination benefits, wherein certain cost of manpower rightsizing program, or MRP, accrued based on formal detailed plan on December 31, 2012 was reversed and was recognized in 2013 based on the date of actual acceptance of the employees by signing the acceptance letter. This reduced our consolidated deferred income tax assets – net by Php166 million, accrued expenses and other current liabilities by Php1,287 million and increased our retained earnings by Php1,121 million as at December 31, 2012. A total of Php1,269 million of MRP cost was recognized for the nine months ended September 30, 2013 as a result of this change in the recognition of termination benefits.

As a result of the adoption of *PAS 19*, our consolidated basic and diluted EPS attributable to common equity holders of PLDT decreased by Php1.53 for the nine months ended September 30, 2012.

The Revised *PAS 19* requires additional disclosure requirements for defined benefit plans. These disclosures, among others, include the following: (a) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation. We are still in the process of collating the additional required disclosures mentioned above and expect to provide such information once available.

**Revised PAS 27, Separate Financial Statements.** As a consequence of the new *PFRS 10* and *PFRS 12, PAS 27* is now limited to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

This revised standard has no impact on our financial position or performance.

**Revised PAS 28, Investments in Associates and Joint Ventures.** Superseding PAS 28, Investments in Associates, is PAS 28, Investments in Associates and Joint Ventures, which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

This revised standard has no impact on our financial position or performance.

Amendments to PAS 1, Financial Statement Presentation – Presentation of Items of Other Comprehensive Income. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that may not be reclassified at any point in time. The amendment solely affects presentation and therefore has no impact on our financial position or performance.

## Improvements to PFRS

The annual improvements to PFRS contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and to be applied retrospectively.

**PFRS 1, First-time Adoption of International Financial Reporting Standards.** The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply *PFRS 1*, even if the entity applied *PFRS 1* in a previous reporting period; or (b) apply PFRS retrospectively in accordance with *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors,* in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carryforward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with *PAS 23, Borrowing Costs*. The amendment will have no impact on our financial position or performance, as we are not a first-time adopter of PFRS.

**PAS 1, Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.** The amendment requires an entity to present a: (a) comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period; and (b) opening statement of financial position (known as the "third balance sheet") when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement will be at the beginning of the preceding period. The amendment has no impact on our financial position or performance.

**PAS 16, Property, Plant and Equipment – Classification of Servicing Equipment.** The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement has no impact on our financial position or performance.

**PAS 32, Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments.** The amendment removes existing income tax requirements from *PAS 32* and requires entities to apply requirements in *PAS 12, Income Taxes,* to any income tax arising from distributions to equity holders. The amendment has no impact on our financial position or performance.

**PAS 34, Interim Financial Reporting and Segment Information for Total Assets and Liabilities.** The amendment clarifies the requirements in *PAS 34* relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirement in *PFRS 8, Operating Segments*. The amendment has no impact on our financial position or performance.

In addition to the above-mentioned amendments and new standards, *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards,* was amended with effect for reporting periods starting on or after January 1, 2013. We are not a first-time adopter of PFRS, therefore, this amendment is not relevant to us.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## Summary of Significant Accounting Policies

The following is the summary of significant accounting policies we applied in preparing our consolidated financial statements:

## **Business Combinations and Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer has the option to measure the components of the noncontrolling interest in the acquiree that are present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. The fair value of previously held equity interest is then included in the amount of total consideration transferred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *PAS 39, Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of *PAS 39*, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, we reassess whether we correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain in the form of negative goodwill is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our consolidated financial statements provisional amounts for the items for which the accounting is incomplete. At measurement period which is no longer than one year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, we also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the recognition of those assets and liabilities as of that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or CGUs, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill acquired in a business combination has yet to be allocated to identifiable CGUs because the initial accounting is incomplete, such provisional goodwill is not tested for impairment unless indicators of impairment exist and we can reliably allocate the carrying amount of goodwill to a CGU or group of CGUs that are expected to benefit from the synergies of the business combination.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

# Investments in Associates

An associate is an entity in which we have significant influence, but no control or joint control, over the financial and operating policies. The existence of significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity. Significant influence is also exemplified when we have: (a) a representation on the board of directors or the equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions with the investee; (d) interchange managerial personnel with the investee; or (e) provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The cost of the investments includes transaction costs. The details of our investments in associates are disclosed in Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Associates.

Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the financial performance of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statements: (1) statement of comprehensive income; and (2) statement of changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profits or losses of our associates is shown on the face of our consolidated income statement. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of noncontrolling interest in the subsidiaries of the associate.

When our share of losses exceeds our interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that we have an obligation or has made payments on behalf of the investee.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. When necessary, adjustments are made to bring such accounting policies in line with our policies.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retained investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

## Joint Arrangements

Joint arrangements are arrangements of which we have joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation when we have rights to the assets, and obligations for the liabilities, relating to an arrangement, we account for each of our assets, liabilities and transactions, including our share of those held or incurred jointly, in relation to the joint operation.
- Joint venture when we have rights only to the net assets of the arrangements, we account for our interest using the equity method, same as investments in associates.

The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies of the joint venture in line with our policies. The details of our investments in joint ventures are disclosed in *Note 10 – Investments in Associates, Joint Ventures and Deposits – Investments in Joint Ventures*.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between us and our joint venture. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Upon loss of joint control and provided that the former joint venture does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former joint venture upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

# Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SHPL, SGP, 3<sup>rd</sup> Brand, SMHC, SMI, Telecoms Solutions, Inc., or TSI, FECL Group, PLDT Global and its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka and AGS) is the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under our Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the end of the reporting period. All differences arising on settlement or translation of monetary items are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and the functional currency of SHPL, SGP, 3<sup>rd</sup> Brand, and certain subsidiaries of AGS is the Singapore dollar. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries is recognized in our consolidated income statement.

When there is a change in an entity's functional currency, the entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The entity translates all assets and liabilities into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as the new historical cost. Exchange differences arising from the translation of a foreign operation previously recognized in other comprehensive income are not reclassified from equity to profit or loss until the disposal of the operation.

Foreign exchange gains or losses of the Parent Company and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## Noncurrent Assets Held-for-sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when we retain a noncontrolling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Property, plant and equipment and intangible assets once classified as held-for-sale are neither depreciated nor amortized.

# Financial Instruments – Initial recognition and subsequent measurement

## Financial Assets

## Initial recognition and measurement

Financial assets within the scope of *PAS 39* are classified as financial assets at fair value through profit or loss, or FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

## Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

# Financial assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in our consolidated statement of financial position at fair value with net changes in gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments (negative net changes in fair value) and "Other income" for non-derivative financial assets at FVPL are recognized in our consolidated in our consolidated income statement under "Interest earned and dividends received from financial assets at FVPL are recognized in our consolidated in our consolidated income statement under "Interest income" and "Other income" and "Ot

Financial assets may be designated at initial recognition as at FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL.

Our financial assets at FVPL include portions of short-term investments as at September 30, 2013, December 31, 2012 and January 1, 2012. See Note 27 – Financial Assets and Liabilities.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our loans and receivables include trade and other receivables, portions of short-term and long-term investments, and portions of advances and other noncurrent assets as at September 30, 2013, December 31, 2012 and January 1, 2012. See *Note 16 – Trade and Other Receivables* and *Note 27 – Financial Assets and Liabilities.* 

#### HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when we have the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in current assets except for those with maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Our HTM investments include portion of investment in debt securities and other long-term investments as at September 30, 2013, December 31, 2012 and January 1, 2012. See Note 11 – Investment in Debt Securities and Other Long-term Investments and Note 27 – Financial Assets and Liabilities.

## Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to liquidity requirements or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income in the available-for-sale reserve account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in our consolidated income statement; or the investment is determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognized in our consolidated on holding available-for-sale financial investments are included under "Interest income" using the EIR method in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right to receive payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months from the end of the reporting period.

We evaluate whether the ability and intention to sell our available-for-sale financial investments in the near term is still appropriate. When, in rare circumstances, we are unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, we may elect to reclassify these financial investments. Reclassification to loans and receivables is permitted when the financial investments meet the definition of loans and receivables and we have the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investment to maturity accordingly.

For a financial investment reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Our available-for-sale financial investments include listed and unlisted equity securities as at September 30, 2013, December 31, 2012 and January 1, 2012. See Note 27 – Financial Assets and Liabilities.

## Financial Liabilities

## Initial recognition and measurement

Financial liabilities within the scope of *PAS 39* are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

## Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

## Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative liabilities, including separated embedded derivatives are also classified as at FVPL unless they are designated as effective hedging instruments. Financial liabilities at FVPL are carried in our consolidated statement of financial position at fair value with gains or losses on liabilities held-for-trading recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as FVPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Our financial liabilities at FVPL include long-term principal only currency swaps, interest rate swaps and an equity forward sale contract as at September 30, 2013 and long-term principal only currency swaps, interest rate swaps and forward foreign exchange contracts as at December 31, 2012 and January 1, 2012. See *Note 27 – Financial Assets and Liabilities.* 

# Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Our other financial liabilities include accounts payable, accrued expenses and other current liabilities, with the exemption of statutory payables, interest-bearing financial liabilities, customers' deposits, dividends payable, and accrual for long-term capital expenditures included under "Deferred credits and other noncurrent liabilities" account as at September 30, 2013, December 31, 2012 and January 1, 2012. See Note 20 – Interest-bearing Financial Liabilities, Note 21 – Deferred Credits and Other Noncurrent Liabilities, Note 22 – Accounts Payable, and Note 23 – Accrued Expenses and Other Current Liabilities.

# Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

## Amortized cost of financial instruments

Amortized cost is computed using the EIR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of EIR.

#### "Day 1" difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a "Day 1" difference) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the "Day 1" difference amount.

## Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## Impairment of Trade and Other Receivables

Individual impairment

#### Retail subscribers

We recognize impairment losses for the whole amount of receivables from permanently disconnected wireless and fixed line subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnection usually occurs within a predetermined period from the last statement date.

We also recognize impairment losses for accounts with extended credit arrangements or promissory notes.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber.

## Corporate subscribers

Receivables from corporate subscribers are provided with impairment losses when they are specifically identified as impaired. Full allowance is generally provided for the whole amount of receivables from corporate accounts based on aging of individual account balances. In making this assessment, we take into account normal payment cycle, counterparty's payment history and industry-observed settlement periods.

# Foreign administrations and domestic carriers

For receivables from foreign administration and domestic carriers, impairment losses are recognized when they are specifically identified as impaired regardless of the age of balances. Full allowance is generally provided after quarterly review of the status of settlement with the carriers. In making this assessment, we take into account normal payment cycle, counterparty carrier's payment history and industry-observed settlement periods.

## Dealers, agents and others

Similar to carrier accounts, we recognize impairment losses for the full amount of receivables from dealers, agents and other parties based on our specific assessment of individual balances regardless of the age of balances.

# Collective impairment

#### Postpaid wireless and fixed line subscribers

We estimate impairment losses for temporarily disconnected accounts for both wireless and fixed line subscribers based on the historical trend of temporarily disconnected accounts which eventually become permanently disconnected. Temporary disconnection is initiated after a series of collection activities is implemented, including the sending of a collection letter, call-out reminders and collection messages via text messaging. Temporary disconnection generally happens 90 days after the due date of the unpaid balance. If the account is not settled within 60 days from temporary disconnection, the account is permanently disconnected.

We recognize impairment losses on our postpaid wireless and fixed line subscribers through net flow-rate methodology which is derived from account-level monitoring of subscriber accounts between different age brackets, from current to one day past due to 120 days past due. The criterion adopted for making the allowance for doubtful accounts takes into consideration the calculation of the actual percentage of losses incurred on each range of accounts receivable.

#### Other subscribers

Receivables that have been assessed individually and found not to be impaired are then assessed collectively based on similar credit risk characteristics to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual impairment assessment. Retail subscribers are provided with collective impairment based on a certain percentage derived from historical data/statistics.

## Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

# Available-for-sale financial investments

For available-for-sale financial investments, we assess at each reporting date whether there is objective evidence that an investment or a group of investment is impaired.

In the case of equity investments classified as available-for-sale financial investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. We treat "significant" generally as decline of 20.0% or more below the original cost of investment, and "prolonged" as greater than 12 months. When a decline in the fair value of an available-for-sale financial investment has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale financial investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost less any impairment loss on that investment previously recognized in our consolidated income statement and the current fair value. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

## Derecognition of Financial Assets and Liabilities

## Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "passthrough" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

## Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

The financial liability is also derecognized when equity instruments are issued to extinguish all or part of the financial liability. The equity instruments issued are recognized at fair value if it can be reliably measured, otherwise, it is recognized at the fair value of the financial liability extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the financial liability extinguished is recognized in profit or loss.

## Derivative Financial Instruments and Hedge Accounting

## Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options, forward currency contracts and interest rate swap contracts is determined using applicable valuation techniques. See *Note 27 – Financial Assets and Liabilities*.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability, a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as a financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

#### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement. See *Note 27 – Financial Assets and Liabilities* for more details.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

We use an equity forward contract to hedge the sale of Philweb shares. See Note 27 – Financial Assets and Liabilities – ePLDT Group.

#### Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

We use a loan as a hedge of its exposure to foreign exchange risk on its investment in foreign subsidiaries. See Note 27 – Financial Assets and Liabilities for more details.

## Current versus noncurrent classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where we expect to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

We recognize transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

#### Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing component parts of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property, plant and equipment.

Depreciation and amortization commence once the property, plant and equipment are available for use and are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life, and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment and are adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Property under construction is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs associated to construction. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Construction-in-progress is transferred to the related property, plant and equipment when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use have been completed, and the property, plant and equipment are ready for commercial service.

# **Borrowing Costs**

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization rate shall be determined by applying a capitalizable rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to our borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying the period shall not exceed the amount of borrowing costs incurred during that period.

Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

# Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

# **Investment Properties**

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined annually based on the latest appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise, including the corresponding tax effect. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The difference between the carrying amount of the owner occupied property and its fair value at the date of change is accounted for as revaluation increment recognized in other comprehensive income. On subsequent disposal of the investment property, the revaluation increment recognized in other comprehensive income is transferred to retained earnings.

No assets held under operating lease have been classified as investment properties.

## Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The estimated useful lives used in amortizing our intangible assets are disclosed in Note 14 – Goodwill and Intangible Assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

# Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventories and supplies to its present location and condition are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business, less the estimated cost to sell or determining the prevailing replacement costs.

## Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following assets have specific characteristics for impairment testing:

Property, plant and equipment

For property, plant and equipment, we also assess for impairment on the basis of impairment indicators such as evidence of internal obsolescence or physical damage.

## Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

## Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU, or group of CGUs, to which the goodwill relates. When the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU, or group of CGUs, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to CGUs, or group of CGUs, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

## Intangible assets

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

## Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as "Interest income" in our consolidated income statement.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents, which include temporary cash investments, are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

#### Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

#### Fair value measurement

We measure financial instruments, such as, derivatives, available-for-sale financial investments, short-term investments, investment in debt securities and other long-term investments and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 27 – Financial Assets and Liabilities*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to us.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities; (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, we determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

We determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as properties. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, we analyse the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per our accounting policies. For this analysis, we verify the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

We, in conjunction with our external valuers, also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the valuation committee and our external valuers present the valuation results to the audit committee and our independent auditors. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, we have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding value-added tax, or VAT, or overseas communication tax, where applicable. When deciding the most appropriate basis for presenting revenue and cost of revenue, we assess our revenue arrangements against specific criteria to determine if we are acting as principal or agent. We consider both the legal form and the substance of our agreement, to determine each party's respective roles in the agreement. When our role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

# Service revenues from continuing operations

Our revenues are principally derived from providing the following telecommunications services: cellular voice and data services in the wireless business; and local exchange, international and national long distance, data and other network, and information and communications services in the fixed line business. When determining the amount of revenue to be recognized in any period, the overriding principle followed is to match the revenue with the provision of service. Services may be sold separately or bundled with goods or other services. The specific recognition criteria are as follows:

# Subscribers

We provide telephone, cellular and data communication services under prepaid and postpaid payment arrangements as follows:

Postpaid service arrangements include fixed monthly charges generated from postpaid cellular voice and data services through the postpaid plans of Smart and *Sun Cellular*, from cellular and local exchange services primarily through wireless, landline and related services, and from data and other network services primarily through broadband and leased line services, which we recognized on a straight-line basis over the customer's subscription period. Services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. Services availed by subscribers in addition to these fixed fee arrangements are charged separately and recognized as the additional service is provided or as availed by the subscribers.

Our prepaid services include over-the-air reloading channels and prepaid cards provided by *Smart Prepaid*, *Talk 'N Text* and *Sun Cellular*. Proceeds from over-the-air reloading channels and prepaid cards are initially recognized as unearned revenue and realized upon actual usage of the airtime value (i.e., the pre-loaded airtime value of subscriber identification module, or SIM, cards and subsequent top-ups) for voice, short messaging services, or SMS, multimedia messaging services, or MMS, content downloading (inclusive of browsing), infotext services and prepaid unlimited and bucket-priced SMS and call subscriptions, net of free SMS allocation and bonus credits (load package purchased, i.e. free additional SMS or minute calls or Peso credits), or upon expiration of the usage period, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

Revenue from international and national long distance calls carried via our network is generally based on rates which vary with distance and type of service (direct dial or operator-assisted, paid or collect, etc.). Revenue from both wireless and fixed line long distance calls is recognized as the service is provided.

Nonrecurring upfront fees such as activation fees charged to subscribers for connection to our network are deferred and are recognized as revenue throughout the estimated average customer relationship. The related incremental costs are similarly deferred and recognized over the same period in our consolidated income statement.

#### Connecting carriers

Interconnection revenue for call termination, call transit and network usages is recognized in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided and the equivalent amounts charged to us by other carriers are recorded under interconnection costs in our consolidated income statement. Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers.

## Value-Added Services, or VAS

Revenues from VAS include SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), MMS, content downloading and infotext services. The amount of revenue recognized is net of amount settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers.

#### Incentives

We operate customer loyalty programmes in our wireless business which allows customers to accumulate points when they purchase services or prepaid credits from us. The points can then be redeemed for free services and discounts, subject to a minimum number of points being obtained. Consideration received is allocated between the services and prepaid credits sold and the points issued, with the consideration allocated to the points equal to their value. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

#### Multiple-deliverable arrangements

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on their relative fair value to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

#### Other services

Revenue from server hosting, co-location services and customer support services are recognized as the service is performed.

## Service revenues from discontinued operations

Our revenues are principally derived from knowledge processing solutions and customer relationship management services in the business process outsourcing business.

Revenue from outsourcing contracts under our knowledge processing solutions and customer relationship management businesses are recognized when evidence of an arrangement exists, the service has been provided, the fee is fixed or determinable, and collectability is reasonably assured. If the fee is not fixed or determinable, or collectability is not reasonably assured, revenue is not recognized until payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptable period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received. Revenue contingent on meeting specific performance conditions are recognized to the extent of costs incurred to provide the service. Outsourcing contracts may also include incentive payments dependent on achieving performance targets. Revenue relating to such incentive payments is recognized when the performance target is achieved.

## Non-service revenues

Revenues from handset and equipment sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The related cost or net realizable value of handsets or equipment, sold to customers is presented as "Cost of sales" in the consolidated income statements.

## Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR.

## Dividend income

Revenue is recognized when our right to receive the payment is established.

## Expenses

Expenses are recognized as incurred.

## Provisions

We recognize a provision when we have a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

## **Retirement Benefits**

## Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by the respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement costs comprise the following:

- Service cost;
- Net interest on the net defined benefit obligation or asset; and
- Remeasurements of net defined benefit obligation or asset

Service cost which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of compensation and employee benefits account in the consolidated income statements.

Net interest on the net defined benefit asset or obligation is the change during the period in the net defined benefit asset or obligation that arises from the passage of time which is determined by applying the discount rate based on the government bonds to the net defined benefit liability or asset. Net deferred benefit asset is recognized as part of advances and other noncurrent assets and net defined benefit obligation is recognized as part of pension and other employee benefits in our consolidated statement of financial position.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

The net defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds, as explained in *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits*), net of the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets held by a long-term employee benefit fund or qualifying insurance policies and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. See *Note 25 – Employee Benefits – Defined Benefit Pension Plans* for more details.

## Defined contribution plans

Smart and certain of its subsidiaries have a host defined contribution plan under which it recognizes an expense for contribution made to such plan in relation to services rendered by covered employees. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, such excess is recognized as a prepaid asset to the extent that the prepayment will lead to a reduction in future payments. When the expected future value of the plan assets is below the future expected value of the retirement benefits prescribed under Republic Act No. 7641, or R.A. 7641 otherwise known as "The Retirement Pay Law", such deficit is accounted for similar to defined benefit accounting. See Note 25 – Employee Benefits – Smart's Retirement Plan for more details.

## Other Long-term Employee Benefits

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, and 2012 to 2014 Long-term Incentive Plan, or the revised LTIP, is determined using the projected unit credit method. Employee benefit costs include current service cost, net interest on the net defined benefit obligation, and remeasurements of the net defined benefit obligation. Past service costs and actuarial gains and losses are recognized immediately in profit or loss. See Note 25 – Employee Benefits – Other Long-term Employee Benefits for more details.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

## Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term and lease amortization is accounted for as reduction of lease receivable.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

# Income Taxes

## Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period where we operate and generate taxable income.

## Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward benefits of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO. Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized, except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

# VAT

Revenues, expenses and assets are recognized net of the amount of VAT except: (1) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and (2) receivables and payables that are stated with the amount of VAT included.

## Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed in the notes to our consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

# Events After the End of the Reporting Period

Post quarter-end events up to the date of approval of the Board of Directors that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

# Equity

Preferred and common stocks are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprises of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRSs.

# New Accounting Standards and Amendments and Interpretations to Existing Standards Effective Subsequent to September 30, 2013

We will adopt the following standard, amendments and interpretation to existing standards enumerated below which are relevant to us when these become effective. Except as otherwise indicated, we do not expect the adoption of these standard, amendments and interpretation to PFRS to have a significant impact on our consolidated financial statements.

## Effective 2014

**Amendments to PFRS 10, Consolidated Financial Statements – Investment Entities.** The amendments require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. New disclosure requirements relating to investment entities were added in *PFRS 12* and *PAS 27*. The amendments to *PFRS 10* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PFRS 10* on our financial position or performance.

Amendments to PFRS 12, Disclosure of Interests in Other Entities – Investment Entities. The amendments require a parent that is an investment entity to disclose information about significant judgments and assumptions it has made in determining that it is an investment entity, as well as and any changes thereto. A parent that is an investment entity is also required to disclose certain information on unconsolidated subsidiaries, which are accounted for at fair value through profit and loss. The amendments to PFRS 12 are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to PFRS 12 on our financial position or performance.

Amendments to PAS 27, Separate Financial Statements – Investment Entities. The amendments require a parent that is an investment entity and does not consolidate its subsidiaries in accordance with the exceptions of *PFRS 10*, to present a separate financial statement as its only financial statement. The amendments to *PAS 27* are to be applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to *PAS 27* on our financial position or performance.

Amendments to PAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set- off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on our net assets, any changes in offsetting are expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. We are currently assessing the impact of the amendments to PAS 32 on our financial position or performance.

Amendments to PAS 36, Recoverable Amount of Disclosures for Non-Financial Assets. The amendments clarify that recoverable amount disclosure only applies to impaired assets or CGU. If the recoverable amount is fair value less costs of disposal, an entity is required to disclose: (1) the level of the fair value hierarchy within which the fair value measurement of the asset is categorized in its entirety; (2) a description of the valuation technique used to measure fair value less costs of disposal or fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy; and (3) the discount rate used in the current and previous measurement if fair value less cost of disposal is measured using a present value technique. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014 but cannot be applied in periods (including comparative periods) in which *PFRS 13* is not applied. The amendments affect disclosures only and have no impact on our financial position or performance.

*Philippine Interpretation IFRIC 21, Levies.* The interpretation clarifies when a liability for a levy should be recognized and is effective for annual periods beginning on or after January 1, 2014. The interpretation has no significant impact on our financial position or performance.

# Effective 2015

**PFRS 9**, *Financial Instruments: Classification and Measurement. PFRS 9* as issued reflects the first phase on the replacement of *PAS 39* and applies to the classification and measurement of financial assets and financial liabilities as defined in *PAS 39*. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project.

We have made an evaluation of the impact of the adoption of this standard. We decided not to early adopt *PFRS 9* for our 2013 reporting ahead of its effectivity date on January 1, 2015, therefore, the consolidated financial statements as at and for the nine months ended September 30, 2013 do not reflect the impact of the said standard.

Only financial assets and liabilities will be affected by the standard and based on this evaluation, loans and receivables (consisting of short-term placements, trade and other receivables, and advances), investment in debt securities and other long-term investments, and financial liabilities (consisting of accounts payable, accrued expenses, customers' deposits, deferred credits, long-term debt, notes payable, obligations under finance leases, and dividends payable), which are carried at amortized cost will not be significantly affected. Upon adoption, these financial instruments shall continue to be carried at their amortized cost, thus, will have no significant financial impact to our financial position and performance. For the derivative financial assets and liabilities, we will still carry them at fair value through profit and loss. For our current available-for-sale investments which are composed of equity investments carried at fair value, we plan to classify these items at fair value through other comprehensive income and will continue to measure these investments at fair value with any changes in the remeasurement to be presented in other comprehensive income, thus, this has no significant financial impact to our financial position and performance.

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

# 3. Management's Use of Accounting Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

## Judgments

In the process of applying the PLDT Group's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

## Assets held-for-sale and discontinued operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment is available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer and should the negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the nine months ended September 30, 2012 to present the results of operations of our BPO segment as discontinued operations. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. Thus, the investment in Philweb was classified as assets held-for-sale as at September 30, 2013 and December 31, 2012. See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Philweb and Note 27 – Financial Assets and Liabilities – ePLDT Group.

## Classifying HTM investments

The classification of financial assets to HTM investments requires significant judgment. In making this judgment, PLDT Group evaluates its intention and ability to hold such investments to maturity. If PLDT Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of available-for-sale financial investments. The investments would thereafter be measured at fair value and not at amortized cost.

Our investments in certain quoted debt securities are classified as HTM investments. See Note 11 – Investment in Debt Securities and Other Long-term Investments.

## Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for, SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka, which use the U.S. dollar. SHPL, SGP, 3<sup>rd</sup> Brand, and certain subsidiaries of AGS use the Singapore dollar as functional currency.

## Leases

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *PAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php4,224, million and Php4,349 million for the nine months ended September 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php86 million and Php204 million for the nine months ended September 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php86 million and Php204 million for the nine months ended September 30, 2013 and 2012, respectively. Total finance lease obligations from continuing operations amounted to Php13 million, Php18 million and Php14 million as at September 30, 2013, December 31, 2012, and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php7 million as at September 30, 2013 and December 31, 2012, respectively. See *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases and Note 27 – Financial Assets and Liabilities – Liquidity Risk.* 

Accounting for investment in MediaQuest Holdings, Inc., or MediaQuest, through Philippine Depositary Receipts, or PDRs

ePLDT made various investments in PDRs issued by MediaQuest in relation to its direct interest in Satventures, Inc., or Satventures, and indirect interest in Cignal TV, Inc, or Cignal TV. Satventures is a wholly-owned subsidiary of MediaQuest and Cignal TV is a wholly-owned subsidiary of Satventures. ePLDT's investments in PDRs are part of our overall strategy to broaden our distribution platform and increase our ability to deliver multi-media content. On September 27, 2013, the Satventures and Cignal TV PDRs were issued and provide ePLDT a 40% economic interest each in the common shares of Satventures and Cignal TV, or an aggregate of 64% economic interest in Cignal TV.

Based on our judgment, ePLDT's investments in PDRs give ePLDT a significant influence over Satventures and Cignal TV as evidenced by inter-change of managerial personnel, provision of essential technical information and material transactions among PLDT, Smart, Satventures and Cignal TV, thus accounted for as investments in associates using the equity method.

See related discussion on Note 10- Investment in Associates, Joint Ventures and Deposits – Investment in MediaQuest.

## Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when the consolidated financial statements, however, may change due to market changes or circumstances arising beyond the control of PLDT. Such changes are reflected in the assumptions when they occur.

## Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS.

There were no asset impairment recognized on noncurrent assets from continuing and discontinued operations for the nine months ended September 30, 2013 and 2012.

The carrying values of our property, plant and equipment, investments in associates, joint ventures and deposits, goodwill and intangible assets, and prepayments are separately disclosed in Notes 9, 10, 14 and 18, respectively.

## Estimating useful lives of property, plant and equipment and intangible assets with finite life

We estimate the useful lives of each item of our property, plant and equipment and intangible assets with finite life based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment and intangible assets with finite life is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment and intangible assets with finite life are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment and intangible assets with finite life would increase our recorded depreciation and amortization and decrease our property, plant and equipment and intangible assets.

The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php22,180 million and Php22,957 million for the nine months ended September 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php153 million and Php347 million for the nine months ended September 30, 2013 and 2012, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization from continuing operations, amounted to Php191,578 million, Php200,078 million and Php200,142 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php1,529 million as at September 30, 2013 and December 31, 2012, respectively.

Intangible assets acquired from business combination with finite lives are amortized over the expected useful life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets with definite life from continuing operations amounted to Php736 million and Php1,019 million for the nine months ended September 30, 2013 and 2012, respectively, while that from discontinued operations amounted to Php55 million and Php139 million for the nine months ended September 30, 2013 and 2012, respectively. Total carrying values of intangible assets with definite life from continuing operations amounted to Php7,569 million, Php7,505 million and Php8,698 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php354 million as at September 30, 2013 and December 31, 2012, respectively.

See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information, Note 9 – Property, Plant and Equipment and Note 14 – Goodwill and Intangible Assets.

# Determining the fair value of investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is performed every December 31.

There were no gains from fair value adjustments charged to profit or loss for each of the nine months ended September 30, 2013 and 2012. Total carrying values of our investment properties amounted to Php712 million each as at September 30, 2013 and December 31, 2012 and Php1,115 million as at January 1, 2012. See *Note 12 – Investment Properties*.

#### Goodwill and intangible assets with indefinite useful life

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Total carrying values of goodwill and intangible assets with indefinite useful life from continuing operations amounted to Php66,704 million, Php66,745 million and Php74,605 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil million and Php6,679 million as at September 30, 2013 and December 31, 2012, respectively. See *Note 2* – *Summary of Significant Accounting Policies – Discontinued Operations* and *Note 14 – Goodwill and Intangible Assets*.

# Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets. Based on Smart and SBI's projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php12,278 million, Php15,351 million and Php16,098 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the OSD method amounted to Php4,620 million, Php3,655 million and Php4,240 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. Total consolidated benefit from deferred income tax from continuing operations amounted to Php3,906 million for the nine months ended September 30, 2013 and total consolidated provision for deferred income tax from discontinued operations amounted to Php30 million and Php46 million for the nine months ended September 30, 2013 and 2012, respectively. Total consolidated net deferred income tax from discontinued operations amounted to Php30 million and Php46 million for the nine months ended September 30, 2013 and 2012, respectively. Total consolidated net deferred income tax assets from continuing operations amounted to Php9,706 million, Php7,225 million and Php46 million for the nine months ended September 30, 2013 and 2012, respectively. Total consolidated net deferred income tax assets from continuing operations amounted to Php9,706 million, Php7,225 million and Php5,117 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php212 million as at September 30, 2013 and December 31, 2012, respectively. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information and Note 7 – Income Taxes.

## Estimating allowance for doubtful accounts

If we assessed that there was objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php1,957 million and Php1,577 million for the nine months ended September 30, 2013 and 2012, respectively. Trade and other receivables, net of allowance for doubtful accounts, from continuing operations amounted to Php16,808 million, Php16,379 million and Php16,245 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil and Php2,704 million as at September 30, 2013 and December 31, 2012, respectively. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment, Note 16 – Trade and Other Receivables and Note 27 – Financial Assets and Liabilities.

## Estimating net realizable value of inventories and supplies

We write-down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php163 million and Php216 million for the nine months ended September 30, 2013 and 2012, respectively. The carrying values of inventories and supplies amounted to Php2,869 million, Php3,467 million and Php3,827 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 4 – Operating Segment Information, Note 5 – Income and Expenses – Asset Impairment and Note 17 – Inventories and Supplies.

## Estimating pension benefit costs and other employee benefits

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. See *Note 25 – Employee Benefits*. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php710 million and Php421 million for the nine months ended September 30, 2013 and 2012, respectively, while net consolidated pension benefit costs from discontinued operations amounted to Php9 million and Php130 million for the nine months ended September 30, 2013 and 2012, respectively. The prepaid benefit costs from continuing operations amounted to Php2,897 million, Php1,471 million and Php8,482 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The accrued benefit costs from continuing operations amounted to Php517 million, Php331 million and Php496 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, while that from discontinued operations amounted to nil million and Php221 million as at September 30, 2013 and December 31, 2012, respectively. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations, Note 5 – Income and Expenses – Compensation and Employee Benefits, Note 18 – Prepayments and Note 25 – Employee Benefits – Defined Benefit Pension Plans.

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the nine months ended September 30, 2013 and 2012 amounted to Php1,167 million and Php1,185 million, respectively, while LTIP costs from discontinued operations amounted to Php111 million and Php65 million for the nine months ended September 30, 2013 and 2012, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,657 million and Php1,491 million as at September 30, 2013 and December 31, 2012, respectively. See Note 5 – Income and Expenses – Compensation and Employee Benefits and Note 25 – Employee Benefits – Other Long-term Employee Benefits.

## Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,667 million, Php2,543 million and Php2,107 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 21 – Deferred Credits and Other Noncurrent Liabilities.

## Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See Note 26 – Provisions and Contingencies.

Based on management's assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

#### Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *PAS 18, Revenue Recognition,* and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

## Determination of fair values of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities as at September 30, 2013 amounted to Php63,733 million and Php221,382 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2012 amounted to Php68,961 million and Php233,541 million, respectively. The total fair values of financial assets and liabilities as at January 1, 2012 amounted to Php72,002 million and Php216,443 million, respectively. See *Note 27 – Financial Assets and Liabilities*.

# 4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker, or our Management Committee, to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and based on the reorganization as discussed below. We have three reportable operating segments, as follows:

- Wireless wireless telecommunications services provided by Smart, CURE and DMPI, which owns the Sun Cellular business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Voyager and Chikka Group, our wireless content operators; and 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, ClarkTel, SubicTel, Philcom Group, Maratel, SBI, PDSI, BCC, PLDT Global and Digitel, all of which together account for approximately 10% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT, IPCDSI and AGS Group; and netGames; and bills printing and other VAS-related services provided by ePDS; and
- Others PGIH, PGIC and PCEV, our investment companies.

See Note 2 – Summary of Significant Accounting Policies, and Note 13 – Business Combinations, for further discussion.

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

The chief operating decision maker monitors the operating results of each business unit separately for purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income (loss) for the year is measured consistent with net income (loss) in the consolidated financial statements.

EBITDA for the year is measured as net income from continuing operations 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 (expenses).

EBITDA margin for the year is measured as EBITDA from continuing operations divided by service revenues.

Core income for the year 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 nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated in full upon consolidation.

Core earnings per common share, or core EPS, for the year is measured as core income divided by the weighted average number of outstanding common shares. See *Note 8 – Earnings Per Common Share* for the weighted average number of common shares.

EBITDA, EBITDA margin, core income and core EPS are non-PFRS measures.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statement, which is in accordance with PFRS.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments for the nine months ended September 30, 2013 and 2012 and as at September 30, 2013 and December 31, 2012 are as follows:

| Interest in the initian pass           September 30.2013 (Unaudited)           References           External customers         86.964         37.621         -         -         124.585           Service revenues (Notes 2 and 3)         85.112         36.482         -         -         121.604           Non-service revenues (Notes 3 and 5)         1.268         9.488         -         (10.827)         1.291           Service revenues (Notes 3)         1.268         9.494         -         (10.827)         1.24.585           Provice revenues (Notes 3)         1.268         9.748         -         -         2.216           Non-service revenues (Notes 3)         1.268         9.934         -         -         2.210           Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)         1.263         857         -         -         2.120           Equity share in net earnings (losses) of associates and joint ventures<br>(Note 10)         1.222         2.844         -         1.903           Interest income (Notes 2 and 5)         2.82         2.816         1.46         28.995           Continuing operations         17.671         6.233         2.816         1.46         28.995           Continuing operations  |  | Wireless | Fixed Line  | Others | Inter-segment | Consolidated |
|---|--|----------|-------------|--------|---------------|--------------|
| September 30, 2013 (Unaudited)           External customers         86,964         37,621         -         -         124,585           Service revenues (Notes 3 and 5)         1,852         1,129         -         -         2,180           Inter-segment transactions         1,268         9,459         -         (10,827)         -           Service revenues (Notes 3 and 5)         1,268         9,498         -         (10,766)         -           Non-service revenues (Notes 3 and 5)         -         61         -         (61)         -         2,180           Asset impairment (Notes 3, 5, 10, 16, 17 and 27)         12,246         9,934         -         -         2,120           Equity sterm in the earnings (losses) of associates and joint ventures         (67)         (18)         1,388         -         1,903           Interest income (Notes 2, 5, 9, 20 and 27)         2,822         2,844         -         (21)         5,245           Provision for banefit from income tax (Notes 3 and 7)         2,777         (18)         1,388         -         1,903           Entropy to continuing operations         17,671         6,233         2,216         146         26,926           Discontinued operations (Notes 2 and 8)         -         -  |  | Wireless | T IXEd Line |        |               | Consolidated |
| Prevenues         Image: constraint of the service revenues (Notes 2 and 3)         86,964         37,621         -         -         124,585           Service revenues (Notes 2 and 3)         85,112         36,492         -         -         -         121,604           Non-service revenues (Notes 3 and 5)         1,268         9,559         -         (10,277)         124,585           Service revenues (Notes 3 and 5)         -         61         -         (0,17         -         -         2,981           Inter-segment transactions         88,232         47,180         -         (10,827)         124,585           Results         -         -         61         -         (0,17,70)         124,585           Resulty share in net earings (losses) of associates and joint ventures (Notes 2 and 5)         282         318         101         (21)         680           Financing costsnet (Notes 2, 5, 9, 20 and 27)         2,622         2,644         -         1,903         Interest income (Notes 2 and 5)         -   | September 30, 2013 (Unaudited)                         |          |             | V - 1  | /             |              |
| Bervice revenues (Notes 2 and 3)         85,112         36,492         -         -         121,604           Non-service revenues (Notes 3 and 5)         1,268         9,498         -         (10,276)         -           Service revenues (Notes 3 and 5)         1,268         9,498         -         (10,276)         -           Non-service revenues (Notes 3 and 5)         -         61         -         (61)         -           Total revenues         88,232         47,180         -         (10,272)         124,585           Results         Depreciation and amortization (Notes 3 and 9)         12,246         9,934         -         -         2,180           Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)         1,263         857         -         -         2,120           Quity share in net earning bloesso of associates and joint ventures         (70)         (718)         1.988         -         1,903           Interest income (Notes 2, and 5)         222         2,181         101         (21)         5,245           Provision for beneft front) income tax (Notes 3 and 7)         2,622         2,816         146         28,986           Continuing operations         11,7671         6,293         2,816         146         28,986  |  |          |             |        |               |              |
| Non-service revenues (Notes 3 and 5)         1,862         1,129         -         -         2,891           Inter-segment transactions         1,268         9,498         -         (10,827)         -           Non-service revenues (Note 3)         1,268         9,498         -         (10,827)         124,585           Results         -         61         -         (10,827)         124,585           Results         -         -         2,2180         -         -         2,2180           Asset impairment (Notes 3, 6, 9, 10, 16, 17 and 27)         1,2246         9,934         -         -         2,2180           Results         -         -         2,2100         -         2,2100         12,246         9,934         -         -         2,2100           Rotic strain (Notes 2, 6, 9, 20 and 27)         2,822         2,844         -         (21)         6,800           Financing costs - net (Notes 2, 6, 9, 20 and 27)         2,822         2,844         -         (21)         5,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (61)         7,5         -         6,271           Net income 'Segment profit         17,671         6,293         2,816         146   | External customers                                     | 86,964   | 37,621      | -      | -             | 124,585      |
| Inter-segment transactions         1.268         9.559         -         (10,627)         -           Service revenues (Notes 3)         1.268         9.498         -         (10,766)         -           Total revenues (Notes 3)         1.268         9.498         -         (10,766)         -           Total revenues         88,232         47,180         -         (10,827)         124,685           Results         Depreciation and amortization (Notes 3 and 9)         1.2246         9.934         -         -         2,120           Asset inpairment (Notes 3, 5, 9, 10, 16, 17 and 27)         1.263         857         -         -         2,120           Equity share in net earnings (tosse) of associates and joint ventures         (67)         (18)         1,988         -         1,903           (Note 10)         (67)         (18)         1,988         -         1,903         -         6,217         64,217         56,269           Provision (roberefit from) income tax (Notes 3 and 7)         6,2277         (61)         75         -         6,231         2,816         146         28,965           Discontinued operations (Notes 2 and 8)         -         -         -         -         -         -         -         -  | Service revenues (Notes 2 and 3)                       | 85,112   | 36,492      | -      | -             | 121,604      |
| Service revenues (Note 3)         1.268         9.498         -         (10,766)         -           Total revenues (Notes 3 and 5)         -         61         -         (61)         -           Total revenues         88,232         47,180         -         (10,827)         124,585           Results         -         -         2,180         -         -         2,120           Equity share in net earnings (tosses) of associates and joint ventures (Notes 2 and 5)         2857         -         -         2,120           Equity share in net earnings (tosses) of associates and joint ventures (Notes 2 and 5)         2822         318         101         (21)         6,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         7,5         -         6,271           Net income / Segment profit         17,671         6,293         2,816         146         28,995           Continuing operations (Notes 2 and 8)         -         -         -         -         2,069           EBITDA more continued operations         17,671         6,293         2,816         146         28,995           Continuing operations         19,236         7,005         2,498         146         28,786           Dis  | Non-service revenues (Notes 3 and 5)                   | 1,852    | 1,129       | -      | -             | 2,981        |
| Non-service revenues (Notes 3 and 5)         -         61         -         (61)         -           Total revenues         88,232         47,180         -         (10,827)         124,585           Results         Depreciation and amortization (Notes 3 and 9)         12,246         9,934         -         -         22,180           Asset impairment (Notes 3, 5, 9, 10, 17, and 27)         1,263         857         -         -         2,120           Equity share in net earning (losses) of associates and joint ventures         (67)         (18)         1,988         -         1,903           Interest income (Notes 2 and 5)         282         318         101         (21)         680           Financing costs - net (Notes 2, 5, 9, 20 and 27)         2,622         2,644         -         (21)         6,263           Provision for benefit from) income tax (Notes 3 and 7)         17,671         6,283         2,816         146         28,926           Discontinued operations         41,152         17,955         (4)         447         59,560           EBITDA from continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         19,236         7,005         2,498         146   | Inter-segment transactions                             | 1,268    | 9,559       | -      | (10,827)      | -            |
| Total revenues         88,232         47,180         -         (10,827)         124,585           Results         Depreciation and amortization (Notes 3 and 9)         12,246         9,934         -         -         22,180           Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)         12,63         857         -         -         22,120           Equity share in net earnings (losses) of associates and joint ventures<br>(Note 10)         (67)         (18)         1,988         -         1,903           Interest income (Notes 2 and 5)         2.862         318         101         (21)         6,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         7.5         -         6,271           Net income (Segment profit         17,671         6,283         2,816         146         28,995           Discontinued operations         41,152         17,955         (4)         447         59,560           EBITDA norgin         49%         39%         -         (2%)         49%           Continuing operations         19,236         7,005         2,498         146         28,876           Discontinued operations         19,236         7,005         2,498         146         28,876 <tr< td=""><td></td><td>1,268</td><td>9,498</td><td>-</td><td>(10,766)</td><td>-</td></tr<> |  | 1,268    | 9,498       | -      | (10,766)      | -            |
| Results         - </td <td>Non-service revenues (Notes 3 and 5)</td> <td>-</td> <td>61</td> <td>-</td> <td>(61)</td> <td>-</td>   | Non-service revenues (Notes 3 and 5)                   | -        | 61          | -      | (61)          | -            |
| Depreciation and amoritzation (Notes 3 and 9)         12.246         9.394         -         -         22.180           Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)         1,263         857         -         -         2,120           Equity share in net earnings (losses) of associates and joint ventures<br>(Note 10)         (67)         (18)         1,988         -         1,903           Interest income (Notes 2 and 5)         222         2,844         -         (21)         5,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         75         -         6,271           Net income / Segment profit         17,671         6,283         2,816         146         28,985           Continuing operations         17,671         6,283         2,816         146         28,985           Discontinued operations (Notes 2 and 8)         -         -         -         2,069           EBITDA from continuing operations         19,236         7,005         2,498         146         28,785           Discontinued operations         19,236         7,005         2,498         146         28,785           Discontinued operations         -         -         -         -         35,038           Discontinu  | Total revenues   | 88,232   | 47,180      | -      | (10,827)      | 124,585      |
| Depreciation and amoritzation (Notes 3 and 9)         12.246         9.394         -         -         22.180           Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)         1,263         857         -         -         2,120           Equity share in net earnings (losses) of associates and joint ventures<br>(Note 10)         (67)         (18)         1,988         -         1,903           Interest income (Notes 2 and 5)         222         2,844         -         (21)         5,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         75         -         6,271           Net income / Segment profit         17,671         6,283         2,816         146         28,985           Continuing operations         17,671         6,283         2,816         146         28,985           Discontinued operations (Notes 2 and 8)         -         -         -         2,069           EBITDA from continuing operations         19,236         7,005         2,498         146         28,785           Discontinued operations         19,236         7,005         2,498         146         28,785           Discontinued operations         -         -         -         -         35,038           Discontinu  | <b>.</b>   |          |             |        |               |              |
| Asset impairment (Notes 3, 5, 6, 10, 16, 17 and 27)       1,283       857       -       -       2,120         Equity share in net earnings (losses) of associates and joint ventures       (67)       (18)       1,988       -       1,903         Interest income (Notes 2 and 5)       282       318       101       (21)       680         Financing costs - net (Notes 2, 5, 9, 20 and 27)       2,662       2,644       -       (21)       5,245         Provision for (benefit from) income tax (Notes 3 and 7)       6,277       (81)       75       -       6,293         Continuing operations       17,671       6,293       2,816       146       26,926         Discontinued operations (Notes 2 and 8)       -       -       -       -       -       -       -       -       -       -       -       -       2,069         EBITDA from continuing operations       19,236       7,005       2,498       146       28,895       Discontinued operations       19,236       7,005       2,498       146       28,895         Discontinued operations       -       -       -       -       (99)       -       -       -       (99)         Assets and liabilities       -       -       19,236       7,005   |  | 10.040   | 0.004       |        |               | 00.400       |
| Equity share in net earnings (losses) of associates and joint ventures<br>(Note 10)         (67)         (18)         1.988         -         1.903           Interest income (Notes 2 and 5)         282         2.814         101         (21)         6.800           Financing costs – net (Notes 2, 5, 9, 20 and 27)         2,622         2,644         -         (21)         5,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         75         -         6,271           Net income / Segment profit         17,671         6,293         2,816         146         26,926           Discontinued operations (Notes 2 and 8)         -         -         -         -         2,069           EBITDA from continuing operations         41,152         17,955         (4)         447         59,550           Discontinued operations         19,236         7,005         2,498         146         28,786           Continuing operations         19,236         7,005         2,498         146         28,865           Discontinued operations         -         -         -         489         -         35,038           Discontinued operations         19,236         7,005         2,498         146         28,986  |  |          | - /         | -      | -             |              |
| $\begin{tabular}{ c c c c c c c c c c c c c c c c c c c$  |  | 1,263    | 857         | -      | -             | 2,120        |
| Interest income (Notes 2 and 5)         282         318         101         (21)         680           Financing costs - net (Notes 2, 5, 9, 20 and 27)         2,622         2,644         -         (21)         5,245           Provision for (benefit from) income tax (Notes 3 and 7)         6,277         (81)         75         -         6,271           Net income / Segment profit         17,671         6,293         2,816         146         28,995           Continuing operations         17,671         6,293         2,816         146         28,995           Discontinued operations (Notes 2 and 8)         -         -         -         -         2,069           EBITDA from continuing operations         19,236         7,005         2,498         146         28,785           Discontinued operations         19,236         7,005         2,498         146         28,885           Discontinued operations         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 7)         1,666         8,650         -         -         355           Total assets         10         -   |  | (07)     | (1.0)       | 1 000  |               | 1 000        |
| Financing costs - net (Notes 2, 5, 9, 20 and 27)       2, 622       2, 644       -       (21)       5, 245         Provision for (benefit from) income tax (Notes 3 and 7)       6, 277       (81)       75       -       6, 271         Net income / Segment profit       17, 671       6, 293       2, 816       146       28, 995         Continuing operations       17, 671       6, 293       2, 816       146       28, 995         Discontinued operations (Notes 2 and 8)       -       -       -       2, 069         EBITDA from continuing operations       41, 152       17, 955       (4)       447       59, 550         Core income       19, 236       7, 005       2, 498       146       28, 786         Continuing operations       19, 236       7, 005       2, 498       146       28, 856         Discontinued operations       -       -       -       -       99         Assets and liabilities       -       10, 154       24, 884       -       35, 038         Deferred income tax assets - net (Notes 3 and 7)       -       -       -       9, 706         Assets and liabilities       -       10, 154       24, 884       -       35, 038         Deferred income tax assets - net (Notes 3  |  |          |             |        | (01)          |              |
| Provision for (benefit from) income tax (Notes 3 and 7)         6.277         (81)         75         -         6.271           Net income / Segment profit         17,671         6.293         2,816         146         28,995           Continuing operations         17,671         6,293         2,816         146         26,926           Discontinued operations         17,671         6,293         2,816         146         26,926           Discontinued operations         11,152         17,955         (4)         447         59,550           EBITDA margin         48%         39%         -         (2%)         49%           Core income         19,236         7,005         2,498         146         28,885           Discontinued operations         19,236         7,005         2,498         146         28,885           Discontinued operations         19,236         7,005         2,498         -         35,038           Notes 3, 5 and 10         -         10,154         24,884         -         35,038           Investments in associates, joint ventures and deposits         -         -         9,06         Assets and iabilities         -         -         9,706           Assets and liabilities         101   |  |          |             |        |               |              |
| Net income / Segment profit         17,671         6,293         2,816         146         28,995           Continuing operations         17,671         6,293         2,816         146         26,926           Discontinued operations (Notes 2 and 8)         –         –         –         –         2,069           EBITDA from continuing operations         41,152         17,955         (4)         447         59,550           EBITDA margin         48%         39%         –         (2%)         49%           Core income         19,236         7,005         2,498         146         28,786           Continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         19,236         7,005         2,498         146         28,885           Discontinued operations         –         –         –         –         99         7005           Assets and liabilities         0         –         10,154         24,884         –         95,038           Deferred income tax assets – net (Notes 3 and 7)         1,056         8,650         –         –         9,706           Assets classified as held-for-sale (Notes 3 and 7)         1,056 <t< td=""><td></td><td></td><td></td><td></td><td>(21)</td><td></td></t<>   |  |          |             |        | (21)          |              |
| Continuing operations         17,671         6,293         2,816         146         26,926           Discontinued operations (Notes 2 and 8)         -         -         -         -         2,069           EBITDA from continuing operations         41,152         17,955         (4)         447         59,550           EBITDA margin         48%         39%         -         (2%)         49%           Core income         19,236         7,005         2,498         146         28,786           Continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         9,706           Operating assets         186,479         177,937         19,968         (38,666)         345,718           Investments in associates, joint ventures and deposits         -         -         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,066         8,650         -         -         355           Total assets         114,655         136,371         2,534         (6,662)         246,898  |  | - /      |             |        | -             |              |
| Discontinued operations (Notes 2 and 8)         -         -         -         -         -         -         2.069           EBITDA from continuing operations         441,152         17,955         (4)         447         59,550           EBITDA margin         44%         39%         -         (2%)         49%           Core income         19,236         7.005         2.498         146         28,786           Continuing operations         19,236         7.005         2.498         146         28,885           Discontinued operations         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         -         (99)           Assets and iabilities         -         10,154         24,884         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         35,038           Deferred income tax liabilities         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities         114,655         136,371         2,566         (6,662)         251,257           Other segment information         -  |  |          |             |        |               |              |
| EBITDA from continuing operations         41,152         17,955         (4)         447         59,550           EBITDA margin         44%         39%         -         (2%)         49%           Core income         19,236         7,005         2,498         146         28,786           Continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         -         (99)           Assets and liabilities         -         -         10,154         24,884         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         36,534         693         322         -         4,359           Total assets         114,655         136,371         2,534         (6,662)         251,257           Other segment information         -         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted - Note 2) <sup>(11</sup>   |  | 17,671   | 6,293       | 2,816  | 146           | - /          |
| EBITDA margin         44%         39%         -         (2%)         49%           Core income         19,236         7,005         2,498         146         28,786           Continuing operations         -         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         -         (99)           Assets classified as hold-for-sale (Notes 3 and 7)         -         10,154         24,884         -         35,038           Deferred income tax assets         -         10,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities         -         114,855         137,064         2,566         (6,662)         251,257           Other segment information         Capi   |  | _        | -           | _      | _             |              |
| Core income         19,236         7,005         2,498         146         28,786           Continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         -         -         -         -         (9)           Assets and liabilities         -         -         -         (9)           Operating assets         186,479         177,937         19,968         (38,666)         345,718           Investments in associates, joint ventures and deposits         -         10,154         24,884         -         35,038           Notes 3, 5 and 10)         -         10,154         24,884         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities         -         118,289         137,064         2,566         (6,662)         251,257           Other segment information         -         7,274         7,6   |  |          |             | (4)    |               |              |
| Continuing operations         19,236         7,005         2,498         146         28,885           Discontinued operations         -         -         -         -         999           Assets and liabilities         -         -         -         -         999           Operating assets         186,479         177,937         19,968         (38,666)         345,718           Investments in associates, joint ventures and deposits         -         10,154         24,884         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         187,535         197,096         44,852         (38,666)         390,817           Operating liabilities         net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         net (Notes 3 and 7)         3,634         693         32         -         14,858           September 30, 2012 (Unaudited and as Adjusted - Note 2) <sup>(1)</sup> 7,274         7,614         -         -         14,888           S  |  |          |             | -      |               |              |
| Discontinued operations         -         -         -         -         (99)           Assets and liabilities         -         -         -         -         (99)           Assets and liabilities         186,479         177,937         19,968         (38,666)         345,718           Investments in associates, joint ventures and deposits         -         10,154         24,884         -         35,038           Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         187,535         197,096         44,852         (38,666)         390,817           Operating liabilities         net (Notes 3 and 7)         3,634         693         32         -         4,359           Total assets         118,289         137,064         2,566         (6,662)         251,257           Other segment information         -         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> 7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – N  |  |          |             |        |               |              |
| Assets and liabilities       Operating assets       186,479       177,937       19,968       (38,666)       345,718         Investments in associates, joint ventures and deposits       -       10,154       24,884       -       35,038         Deferred income tax assets - net (Notes 3 and 7)       1,056       8,650       -       -       9,706         Assets classified as held-for-sale (Notes 2 and 10)       -       355       -       -       355         Total assets       187,535       197,096       44,852       (38,666)       390,817         Operating liabilities       114,655       136,371       2,534       (6,662)       246,898         Deferred income tax liabilities - net (Notes 3 and 7)       3,634       693       32       -       4,359         Total liabilities       114,655       136,371       2,536       (6,662)       246,898         Deferred income tax liabilities - net (Notes 3 and 7)       3,634       693       32       -       4,359         Total liabilities       118,289       137,064       2,566       (6,662)       251,257         Other segment information         Capital expenditures, including capitalized interest       (Notes 5, 9, 20 and 21)       7,274       7,614       -  |  | 19,236   | 7,005       | 2,498  |               |              |
| Operating assets         186,479         177,937         19,968         (38,666)         345,718           Investments in associates, joint ventures and deposits         -         10,154         24,884         -         35,038           Notes 3, 5 and 10)         -         10,156         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         197,096         44,852         (38,666)         390,817           Operating liabilities         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities – net (Notes 3 and 7)         3,634         693         322         -         4,359           Total liabilities         1114,655         136,371         2,566         (6,662)         251,257           Other segment information           Capital expenditures, including capitalized interest         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted - Note 2) <sup>(1)</sup> Revenues         85,054         36,309         -         -         119,050           Non-service revenues (Notes 2 and  | Discontinued operations                                | -        | -           | -      | -             | (99)         |
| Investments in associates, joint ventures and deposits       -       10,154       24,884       -       35,038         Notes 3, 5 and 10)       -       10,056       8,650       -       -       9,706         Assets classified as held-for-sale (Notes 2 and 10)       -       355       -       -       355         Total assets       187,535       197,096       44,852       (38,666)       390,817         Operating liabilities       114,655       136,371       2,534       (6,662)       246,898         Deferred income tax liabilities - net (Notes 3 and 7)       3,634       693       32       -       4,359         Total liabilities       118,289       137,064       2,566       (6,662)       251,257         Other segment information         Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)       7,274       7,614       -       -       14,888         September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues       85,054       36,309       -       -       121,363         Sterrinal customers       85,054       36,309       -       -       121,363         Service revenues (Notes 2 and 3)       83,383       35,667       -       -  | Assets and liabilities                                 |          |             |        |               |              |
| (Notes 3, 5 and 10)       -       10,154       24,884       -       35,038         Deferred income tax assets - net (Notes 3 and 7)       1,056       8,650       -       -       9,706         Assets classified as held-for-sale (Notes 2 and 10)       -       355       -       -       355         Total assets       187,535       197,096       44,852       (38,666)       390,817         Operating liabilities       114,655       136,371       2,534       (6,662)       246,898         Deferred income tax liabilities - net (Notes 3 and 7)       3,634       693       32       -       4,359         Total liabilities       118,289       137,064       2,566       (6,662)       251,257         Other segment information         Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)       7,274       7,614       -       -       14,888         September 30, 2012 (Unaudited and as Adjusted - Note 2) <sup>(1)</sup> Revenues       85,054       36,309       -       -       121,363         External customers       85,054       36,309       -       -       121,363         Service revenues (Notes 2 and 3)       83,383       35,667       -       119,050   | Operating assets                                       | 186,479  | 177,937     | 19,968 | (38,666)      | 345,718      |
| Deferred income tax assets - net (Notes 3 and 7)         1,056         8,650         -         -         9,706           Assets classified as held-for-sale (Notes 2 and 10)         -         355         -         -         355           Total assets         187,535         197,096         44,852         (38,666)         390,817           Operating liabilities         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities - net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information           Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted - Note 2) <sup>(1)</sup> Revenues         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         2,313           Inter-segment transactions  | Investments in associates, joint ventures and deposits |          |             |        |               |              |
| Assets classified as held-for-sale (Notes 2 and 10)       -       355       -       -       355         Total assets       187,535       197,096       44,852       (38,666)       390,817         Operating liabilities       114,655       136,371       2,534       (6,662)       246,898         Deferred income tax liabilities – net (Notes 3 and 7)       3,634       693       32       -       4,359         Total liabilities       118,289       137,064       2,566       (6,662)       251,257         Other segment information         Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)       7,274       7,614       -       -       14,888         September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues       85,054       36,309       -       -       121,363         Service revenues (Notes 2 and 3)       83,383       35,667       -       119,050         Non-service revenues (Notes 3 and 5)       1,671       642       -       2,313         Inter-segment transactions       1,283       8,514       -       (9,805)       -         Service revenues (Note 3)       1,283       8,514       -       (8, -       19,797)       - <td>(Notes 3, 5 and 10)</td> <td>-</td> <td>10,154</td> <td>24,884</td> <td>-</td> <td>35,038</td>   | (Notes 3, 5 and 10)                                    | -        | 10,154      | 24,884 | -             | 35,038       |
| Total assets         187,535         197,096         44,852         (38,666)         390,817           Operating liabilities         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities – net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information         Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> 85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,514         -         (9,797)         -           Service revenues (Note 3)         1,283         8,514         -         (8)         -   | Deferred income tax assets - net (Notes 3 and 7)       | 1,056    | 8,650       | -      | -             | 9,706        |
| Operating liabilities         114,655         136,371         2,534         (6,662)         246,898           Deferred income tax liabilities – net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information         Capital expenditures, including capitalized interest (Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues           External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,77)         -           Non-service revenues (Note 3 and 5)         -         8         -         (8)         -   | Assets classified as held-for-sale (Notes 2 and 10)    | · _      | 355         | -      | -             | 355          |
| Deferred income tax liabilities – net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information<br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup><br>Revenues         85,054         36,309         -         -         121,363           Stertmal customers<br>Service revenues (Notes 2 and 3)         83,383         35,667         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         2,313           Inter-segment transactions<br>Service revenues (Note 3)         1,283         8,514         -         (9,977)           Non-service revenues (Note 3)         1,283         8,514         -         (9,797)         -   | Total assets   | 187,535  | 197,096     | 44,852 | (38,666)      | 390,817      |
| Deferred income tax liabilities – net (Notes 3 and 7)         3,634         693         32         -         4,359           Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information<br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup><br>Revenues         85,054         36,309         -         -         121,363           Stertmal customers<br>Service revenues (Notes 2 and 3)         83,383         35,667         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         2,313           Inter-segment transactions<br>Service revenues (Note 3)         1,283         8,514         -         (9,977)           Non-service revenues (Note 3)         1,283         8,514         -         (9,797)         -   |  | 111055   | 100.071     | 0.504  | (2, 2, 2, 2)  | 0.40.000     |
| Total liabilities         118,289         137,064         2,566         (6,662)         251,257           Other segment information<br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup><br>Revenues           External customers<br>Service revenues (Notes 2 and 3)         85,054         36,309         -         -         121,363           Non-service revenues (Notes 2 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Notes 3)         1,283         8,514         -         (9,77)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -  |  |          |             |        | (6,662)       |              |
| Other segment information<br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup><br>Revenues         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup><br>Revenues         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -  |  |          |             |        | -             |              |
| Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues           External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   | l otal liabilities                                     | 118,289  | 137,064     | 2,566  | (6,662)       | 251,257      |
| Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues           External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   | Other segment information                              |          |             |        |               |              |
| (Notes 5, 9, 20 and 21)         7,274         7,614         -         -         14,888           September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues         -         121,363           Revenues         External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Notes 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   |  |          |             |        |               |              |
| September 30, 2012 (Unaudited and as Adjusted – Note 2) <sup>(1)</sup> Revenues         External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,77)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   |  | 7,274    | 7,614       | -      | -             | 14,888       |
| Revenues         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -  |  | ,        |             |        |               |              |
| External customers         85,054         36,309         -         -         121,363           Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Notes 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   |  |          |             |        |               |              |
| Service revenues (Notes 2 and 3)         83,383         35,667         -         -         119,050           Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   |  |          |             |        |               |              |
| Non-service revenues (Notes 3 and 5)         1,671         642         -         -         2,313           Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,977)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -  |  |          |             | -      | -             |              |
| Inter-segment transactions         1,283         8,522         -         (9,805)         -           Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -   |  |          |             | -      | -             |              |
| Service revenues (Note 3)         1,283         8,514         -         (9,797)         -           Non-service revenues (Notes 3 and 5)         -         8         -         (8)         -  | Non-service revenues (Notes 3 and 5)                   | 1,671    |             | -      | -             | 2,313        |
| Non-service revenues (Notes 3 and 5)         –         8         –         (8)         –  |  |          |             | -      | (9,805)       | -            |
|   | Service revenues (Note 3)                              | 1,283    | 8,514       | -      | (9,797)       | -            |
| Total revenues 86,337 44,831 - (9,805) 121,363  |  |          | -           | _      | (8)           | -            |
|   | Total revenues   | 86,337   | 44,831      | -      | (9,805)       | 121,363      |

|   | Wireless                   | Fixed Line          | Others          | Inter-segment<br>Transactions | Consolidated              |
|---|----------------------------|---------------------|-----------------|-------------------------------|---------------------------|
|   |                            |                     | (in million pe  | sos)                          |                           |
| Results   | 10.070                     | 0.001               |                 |                               | 00.057                    |
| Depreciation and amortization (Notes 3 and 9)   | 13,276                     | 9,681               | -               | -                             | 22,957                    |
| Asset impairment (Notes 3, 5, 9, 10, 16, 17 and 27)<br>Equity share in net earnings (losses) of associates and joint ventures                                   | 1,013                      | 780                 | -               | -                             | 1,793                     |
| (Note 10)   | (35)                       | 114                 | 1.361           |                               | 1.440                     |
|   | (35)<br>439                | 527                 | 42              | -                             | 1,440                     |
| Interest income (Notes 2 and 5)   | 439<br>1.995               | 2,990               |                 | -                             | 4,985                     |
| Financing costs – net (Notes 2, 5, 9, 20 and 27)<br>Provision for income tax (Notes 3 and 7)  | 7,835                      | 2,990               | -               | -                             | 4,985<br>8,272            |
| Net income / Segment profit   | 20,519                     | 434<br>3,017        | 4.141           | 319                           | 28,359                    |
| Continuing operations   | 20,519                     | 3,017               | 4,141           | 319                           | 28,359                    |
| Discontinued operations (Notes 2 and 8)   | 20,519                     | 3,017               | 4,141           | 319                           | 27,996                    |
| EBITDA from continuing operations   | 41,978                     | 14.713              | (15)            | 529                           | 57,205                    |
| EBITDA from continuing operations<br>EBITDA margin  | 41,978                     | 33%                 | (15)            | (2%)                          | 48%                       |
| Core income from:   | 19,298                     | 3,484               | 4,231           | (2 %)<br>319                  | 27,690                    |
| Cortinuing operations   | 19,298                     | 3,484<br>3,484      | 4,231           | 319                           | 27,332                    |
| Discontinued operations   | 19,290                     | 3,404               | 4,231           | - 319                         | 358                       |
| Assets and liabilities<br>Operating assets<br>Investments in associates, joint ventures and deposits<br>(Notes 3, 5 and 10)                                     | 202,494<br>54              | 182,223<br>6,222    | 9,979<br>20,801 | (36,933)                      | 357,763<br>27,077         |
| Deferred income tax assets - net (Notes 3 and 7)  | 754                        | 6,471               | _               | -                             | 7,225                     |
| Assets classified as held-for-sale (Notes 2 and 10)   | -                          | 638                 | -               | -                             | 13,750                    |
| Total assets  | 203,302                    | 195,554             | 30,780          | (36,933)                      | 405,815                   |
| Operating liabilities<br>Deferred income tax liabilities – net (Notes 3 and 7)<br>Liabilities directly associated with assets classified as held-for-sale (Note | 134,524<br>4,918<br>e 2) – | 138,338<br>795<br>– | 4,788           | (25,893)<br>                  | 251,757<br>5,713<br>2,611 |
| Total liabilities   | 139,442                    | 139,133             | 4,788           | (25,893)                      | 260,081                   |
| Other segment information <sup>(1)</sup><br>Capital expenditures, including capitalized interest<br>(Notes 5, 9, 20 and 21)                                     | 11,565                     | 7,404               | _               | _                             | 19,294                    |
| Continuing operations   | 11,565                     | 7,404               | -               | -                             | 18,969                    |
| Discontinued operations   | -                          | -                   | -               | -                             | 325                       |

(1)

The September 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment, certain presentation adjustments to conform with the current presentation of our business segments and the adjustments on the adoption of the Revised PAS 19. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations and Changes in Accounting Policies and Disclosures. The December 31, 2012 comparative information was restated to reflect the adjustments on the adoption of the Revised PAS 19 and certain presentation adjustments to conform with the current presentation of our business segments. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion. (2)

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

|   | 2013        | 2012                            |
|---|-------------|---------------------------------|
|   |             | (Unaudited and<br>as Adjusted – |
|   | (Unaudited) | Note 2)                         |
|   |             | n pesos)                        |
| EBITDA from continuing operations                                       | 59,550      | 57,205                          |
| Add (deduct) adjustments to continuing operations:                      |             |                                 |
| Other income (Notes 2 and 18)   | 2,006       | 4,712                           |
| Equity share in net earnings of associates and joint ventures (Note 10) | 1,903       | 1,440                           |
| Interest income (Notes 2, 5 and 15)                                     | 680         | 1,008                           |
| Gains (losses) on derivative financial instruments - net                |             |                                 |
| (Notes 2 and 27)  | 492         | (1,560)                         |
| Amortization of intangible assets (Notes 3 and 14)                      | (736)       | (1,019)                         |
| Retroactive effect of adoption of Revised PAS 19 (Note 2)(1)            | (1,269)     | _                               |
| Foreign exchange gains (losses) – net (Notes 2, 9 and 27)               | (2,004)     | 2,424                           |
| Financing costs – net (Notes 2, 5, 9, 20 and 27)                        | (5,245)     | (4,985)                         |
| Provision for income tax (Notes 2, 3 and 7)                             | (6,271)     | (8,272)                         |
| Depreciation and amortization (Notes 3 and 9)                           | (22,180)    | (22,957)                        |
| Total adjustments   | (32,624)    | (29,209)                        |
| Net income from continuing operations                                   | 26,926      | 27,996                          |
| Net income from discontinued operations (Note 2)                        | 2,069       | 363                             |
| Consolidated net income   | 28,995      | 28,359                          |

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

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

|   | 2013        | 2012           |
|---|-------------|----------------|
|   |             | (Unaudited and |
|   |             | as Adjusted -  |
|   | (Unaudited) | Note 2)        |
|   | (in millio  | n pesos)       |
| Core income from continuing operations                              | 28,885      | 27,332         |
| Core income from discontinued operations                            | (99)        | 358            |
| Consolidated core income  | 28,786      | 27,690         |
| Add (deduct) adjustments to continuing operations:                  |             |                |
| Gains (losses) on derivative financial instruments – net, excluding |             |                |
| hedge cost (Notes 2 and 27)   | 719         | (1,311)        |
| Core income adjustment on equity share in net earnings (losses)     |             |                |
| of associates and joint ventures                                    | 32          | (90)           |
| Net income (loss) attributable to noncontrolling interests          | 41          | (25)           |
| Retroactive effect of adoption of Revised PAS 19 (Note 2)(1)        | (1,269)     | _              |
| Foreign exchange gains (losses) – net (Notes 2, 9 and 27)           | (2,004)     | 2,424          |
| Net tax effect of aforementioned adjustments                        | 522         | (334)          |
| Total adjustments   | (1,959)     | 664            |
| Adjustment to discontinued operations                               | 2,168       | 5              |
| Net income from continuing operations                               | 26,926      | 27,996         |
| Net income from discontinued operations (Note 2)                    | 2,069       | 363            |
| Consolidated net income   | 28,995      | 28,359         |

<sup>(1)</sup> The Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion.

The following table shows the reconciliation of our consolidated basic and diluted core EPS to our consolidated basic and diluted EPS attributable to common equity holder of PLDT for the nine months ended September 30, 2013 and 2012:

|  | 20             | )13            | 20     | )12                     |
|--|----------------|----------------|--------|-------------------------|
|  | Basic          | Diluted        | Basic  | Diluted                 |
|  | (Unau          | udited)        | · ·    | ited and<br>d – Note 2) |
| Core EPS from continuing operations  | 133.48         | 133.48         | 126.33 | 126.33                  |
| Core EPS from discontinued operations  | (0.45)         | (0.45)         | 1.66   | 1.66                    |
| Consolidated core EPS  | 133.03         | 133.03         | 127.99 | 127.99                  |
| Foreign exchange gains (losses) – net (Notes 2, 9 and 27)<br>Gains (losses) on derivative financial instruments – net, excluding | (6.63)         | (6.63)         | 7.86   | 7.86                    |
| hedge cost (Notes 2 and 27)<br>Core income adjustment on equity share in net earnings (losses)                                   | 2.33           | 2.33           | (4.25) | (4.25)                  |
| of associates and joint ventures<br>Retroactive effect of adoption of Revised PAS 19 (Note 2)                                    | 0.15<br>(5.10) | 0.15<br>(5.10) | (0.42) | (0.42)                  |
| Total adjustment   | (9.25)         | (9.25)         | 3.19   | 3.19                    |
| Adjustments to discontinued operations   | 10.03          | 10.03          | 0.02   | 0.02                    |
| EPS from continuing operations attributable to common equity holders<br>of PLDT  | 124.23         | 124.23         | 129.52 | 129.52                  |
| EPS from discontinued operations attributable to common equity holders<br>of PLDT (Notes 2 and 8)                                | 9.58           | 9.58           | 1.68   | 1.68                    |
| Consolidated EPS attributable to common equity holders of PLDT<br>(Note 8)   | 133.81         | 133.81         | 131.20 | 131.20                  |

The following table presents our revenues from external customers by category of products and services for the nine months ended September 30, 2013 and 2012:

|   | 2013                               | 2012                               |  |
|---|------------------------------------|------------------------------------|--|
|   | (Unaudited)                        | (Unaudited and<br>as Adjusted*)    |  |
|   | (in millio                         | on pesos)                          |  |
| Wireless services   |                                    |                                    |  |
| Service revenues:   |                                    |                                    |  |
| Cellular  | 77,093                             | 75,892                             |  |
| Broadband, satellite and others   | 8,019                              | 7,491                              |  |
| ,   | 85,112                             | 83,383                             |  |
| Non-service revenues:   |                                    | ,                                  |  |
| Sale of cellular handsets, cellular SIM-packs and broadband data  |                                    |                                    |  |
| modems  | 1,852                              | 1,671                              |  |
| Total wireless revenues   | 86,964                             | 85,054                             |  |
| Services revenues:<br>Local exchange<br>International long distance<br>National long distance<br>Data and other network | 12,116<br>5,080<br>3,204<br>15,532 | 12,294<br>5,241<br>3,597<br>14,010 |  |
| Miscellaneous   | 560                                | 525                                |  |
| New York, Second Second   | 36,492                             | 35,667                             |  |
| Non-service revenues:   | 000                                | 000                                |  |
| Sale of computers   | 828<br>301                         | 339                                |  |
| Point-product-sales   |                                    | 303                                |  |
|   | 1,129                              | 642                                |  |
| Total fixed line revenues   | 37,621                             | 36,309                             |  |
| Total revenues from continuing operations   | 124,585                            | 121,363                            |  |

The September 30, 2012 comparative information was adjusted to reflect the discontinued operations of the BPO segment and certain presentation adjustments to conform with the current presentation of our business segments.

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

For each of the nine months ended September 30, 2013 and 2012, no revenue transactions with a single external customer had accounted for 10% or more of our consolidated revenues from external customers.

# 5. Income and Expenses

Non-service Revenues

Non-service revenues for the nine months ended September 30, 2013 and 2012 consists of the following:

|  | 2013        | 2012   |
|--|-------------|--------|
|  | (Unaud      | dited) |
|  | (in million | pesos) |
| Sale of computers, cellular handsets, cellular SIM-packs and |             |        |
| broadband data modems  | 2,680       | 2,010  |
| Point-product-sales  | 301         | 303    |
| (Note 4)   | 2.981       | 2.313  |

Compensation and Employee Benefits

Compensation and employee benefits for the nine months ended September 30, 2013 and 2012 consists of the following:

|  | 2013               | 2012                                       |
|--|--------------------|--|
|  | (Unaudited)        | (Unaudited and<br>as Adjusted –<br>Note 2) |
|  | (in million pesos) |  |
| Salaries and other employee benefits   | 13,011             | 13,240                                     |
| MRP <sup>(1)</sup>                     | 1,555              | 1,786                                      |
| Incentive plans (Notes 3 and 25)       | 1,167              | 1,185                                      |
| Pension benefit costs (Notes 3 and 25) | 784                | 421  |
|  | 16,517             | 16,632                                     |

<sup>(1)</sup> Includes the retroactive effect of the adoption of the Revised PAS 19 in MRP costs of Php1,269 million for the nine months ended September 30, 2013. See Note 2 – Summary of Significant Accounting Policies – Changes in Accounting Policies and Disclosures for further discussion. Over the past years, we have been implementing MRP in line with our continuing efforts to reduce the cost base of our businesses. The total MRP cost charged to operations amounted to Php1,555 million and Php1,786 million for the nine months ended September 30, 2013 and 2012, respectively. The decision to implement the MRP was a result of challenges faced by our businesses as significant changes in technology, increasing competition, and shifting market preferences have reshaped the future of our businesses. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

# Cost of Sales

Cost of sales for the nine months ended September 30, 2013 and 2012 consists of the following:

|   | 2013        | 2012   |
|---|-------------|--------|
|   | (Unaud      | dited) |
|   | (in million | pesos) |
| Cost of computers, cellular handsets, cellular SIM-packs sold and |             |        |
| broadband data modems   | 8,267       | 6,058  |
| Cost of point-product-sales                                       | 226         | 256    |
| Cost of satellite air time and terminal units (Note 24)           | 39          | 67     |
|   | 8,532       | 6,381  |

# Asset Impairment

Asset impairment for the nine months ended September 30, 2013 and 2012 consists of the following:

|  | 2013               | 2012   |
|--|--------------------|--------|
|  | (Unaud             | dited) |
|  | (in million pesos) |        |
| Trade and other receivables (Notes 3 and 16) | 1,957              | 1,577  |
| Inventories and supplies (Notes 3 and 17)    | 163                | 216    |
|  | 2.120              | 1.793  |

# Interest Income

Interest income for the nine months ended September 30, 2013 and 2012 consists of the following:

|  | 2013        | 2012                                       |
|--|-------------|--|
|  | (Unaudited) | (Unaudited and<br>as Adjusted –<br>Note 2) |
|  |             | n pesos)                                   |
| Interest income on other loans and receivables | 665         | 963  |
| Interest income on HTM investments (Note 11)   | 12          | 25   |
| Interest income on FVPL                        | 3           | 20   |
| (Note 4)                                       | 680         | 1,008                                      |

### Financing Costs - net

Financing costs - net for the nine months ended September 30, 2013 and 2012 consists of the following:

|   | 2013        | 2012           |
|---|-------------|----------------|
|   |             | (Unaudited and |
|   |             | as Adjusted –  |
|   | (Unaudited) | Note 2)        |
|   | (in millio  | on pesos)      |
| Interest on loans and other related items (Notes 20 and 27) | 3,928       | 4,655          |
| Accretion on financial liabilities (Notes 20 and 27)        | 1,514       | 794            |
| Financing charges   | 329         | 235            |
| Capitalized interest (Note 9)                               | (526)       | (699)          |
| (Note 4)  | 5,245       | 4,985          |

# 6. Components of Other Comprehensive Income

Changes in other comprehensive income under equity of our consolidated statements of financial position for the nine months ended September 30, 2013 and 2012 are as follows:

|   | Foreign<br>currency<br>translation<br>differences of<br>subsidiaries | Net gains on<br>available-for-sale<br>financial<br>investments<br>– net of tax | Net<br>transactions<br>on cash flow<br>hedges<br>– net of tax | Revaluation<br>increment on<br>investment<br>properties<br>– net of tax | Actuarial<br>gains (losses)<br>on defined<br>benefits plans | Total other<br>comprehensive<br>income (loss)<br>attributable to<br>equity holders of<br>PLDT | Share of<br>noncontrolling<br>interests | Total other<br>comprehensive<br>income (loss)<br>– net of tax |
|---|--|--|---|---|---|---|---|---|
|   |  |  |   | (in millio  | on pesos)   |   |   |   |
| Balances as at January 1, 2013                                      | 431  | 75   | 44  | 240   | (4,177)   | (3,387)   | 6                                       | (3,381)   |
| Other comprehensive income (loss) from:                             |  |  |   |   |   |   |   |   |
| Continuing operations   | 758  | 6  | 68  | (1)   | 452   | 1,283   | (6)                                     | 1,277   |
| Discontinued operations   | (747)  | -  | 12  | -   | -   | (735)   | -                                       | (735)   |
| Balances as at September 30, 2013                                   |  |  |   |   |   |   |   |   |
| (Unaudited)   | 442  | 81   | 124   | 239   | (3,725)   | (2,839)   | -                                       | (2,839)   |
| Balances as at January 1, 2012<br>Other comprehensive income (loss) | (1,024)  | 52   | 14  | 314   | 2,099   | 1,455   | 8                                       | 1,463   |
| from continuing operations  | (685)  | 16   | (1,260)   | (1)   | -   | (1,930)   | -                                       | (1,930)   |
| Balances as at September 30, 2012<br>(Unaudited and as Adjusted –   |  |  |   |   |   |   |   |   |
| Note 2)   | (1,709)  | 68   | (1,246)   | 313   | 2,099   | (475)   | 8                                       | (467)   |

Revaluation increment on investment properties pertains to the difference between the carrying value and fair value of property, plant and equipment transferred to investment property at the time of change in classification.

# 7. Income Taxes

# Corporate Income Tax

The major components of consolidated net deferred income tax assets (liabilities) recognized in our consolidated statements of financial position as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | (in million pesos) | January 1,<br>2012     |             |
|--|--------------------|------------------------|-------------|
|  | (Unaudited)        | (As Adjusted – Note 2) | d – Note 2) |
|  |                    | (in million pesos)     |             |
| Net deferred income tax assets (Notes 3 and 4) | 9,706              | 7,225 5,1              |             |
| Net deferred income tax liabilities (Note 4)   | (4,359)            | (5,713)                | (7,078)     |

The components of our consolidated net deferred income tax assets and liabilities as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|   | September 30,<br>2013             | December 31,<br>2012 | January 1<br>2012 |  |
|---|-----------------------------------|----------------------|-------------------|--|
|   | (Unaudited) (As Adjusted – Note 2 |                      |                   |  |
|   |                                   | (in million pesos)   |                   |  |
| Net deferred income tax assets:                                 |                                   |                      |                   |  |
| Unearned revenues   | 2,691                             | 2,305                | 2,726             |  |
| Unamortized past service pension costs                          | 2,527                             | 2,244                | 2,124             |  |
| Accumulated provision for doubtful accounts                     | 2,503                             | 2,379                | 2,466             |  |
| Unrealized foreign exchange losses                              | 1,403                             | 970                  | 111               |  |
| Derivative financial instruments                                | 563                               | 922                  | 768               |  |
| Provision for other assets                                      | 482                               | 367                  | 441               |  |
| Accumulated write-down of inventories to net realizable values  | 185                               | 135                  | 198               |  |
| NOLCO   | 107                               | 145                  | 326               |  |
| Fixed asset impairment  | 51                                | 24                   | 1,469             |  |
| MCIT  | 41                                | 33                   | 9                 |  |
| Capitalized foreign exchange differential – net of depreciation | (1)                               | (100)                | (231)             |  |
| Capitalized taxes and duties - net of amortization              | (20)                              | (65)                 | (125)             |  |
| Pension and other employee benefits                             | (414)                             | (369)                | (2,511)           |  |
| Undepreciated capitalized interest charges                      | (1,799)                           | (1,964)              | (2,624)           |  |
| Others  | 1,387                             | 199                  | (30)              |  |
| Total deferred income tax assets                                | 9,706                             | 7,225                | 5,117             |  |
| Net deferred income tax liabilities:                            |                                   |                      |                   |  |
| Intangible assets - net of amortization                         | 3,234                             | 3,607                | 3,725             |  |
| Unrealized foreign exchange gains                               | 744                               | 2,049                | 1,756             |  |
| Unamortized fair value adjustment on fixed assets from          |                                   |                      | ,                 |  |
| business combinations   | 634                               | 687                  | 997               |  |
| Undepreciated capitalized interest charges                      | 10                                | 82                   | 582               |  |
| Others  | (263)                             | (712)                | 18                |  |
| Total deferred income tax liabilities                           | 4,359                             | 5.713                | 7.078             |  |

Changes in our consolidated net deferred income tax assets (liabilities) as at September 30, 2013 and December 31, 2012 are as follows:

|  | September 30,<br>2013 | December 31,<br>2012      |
|--|-----------------------|---------------------------|
|  | (Unaudited)           | (As Adjusted –<br>Note 2) |
|  | (in millior           | 1 pesos)                  |
| Net deferred income tax assets - balance at beginning of the period (Notes 3 and 4)      | 7,225                 | 5,117                     |
| Net deferred income tax liabilities - balance at beginning of the period (Notes 3 and 4) | (5,713)               | (7,078)                   |
| Net balance at beginning of the period   | 1,512                 | (1,961)                   |
| Benefit from deferred income tax (Note 3)  | 3,906                 | 947                       |
| Movement charged directly to other comprehensive income                                  | (65)                  | 2,614                     |
| Discontinued operations  | _                     | (65)                      |
| Others   | (6)                   | (23)                      |
| Net balance at end of the period   | 5,347                 | 1,512                     |
| Net deferred income tax assets - balance at end of the period (Notes 3 and 4)            | 9,706                 | 7,225                     |
| Net deferred income tax liabilities - balance at end of the period (Notes 3 and 4)       | (4,359)               | (5,713)                   |

The analysis of our consolidated net deferred income tax assets as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | September 30,<br>2013 | December 31,<br>2012  | January 1<br>2012   |
|--|-----------------------|-----------------------|---|
|  | (Unaudited)           | (As Adjusted – Note 2 |   |
|  |                       | (in million pesos)    | 2012<br>ad – Note 2)<br>8,505<br>2,541<br>11,046<br>(5,159)<br>(770)<br>(5,929) |
| Deferred income tax assets:                                    |                       |                       |   |
| Deferred income tax assets to be recovered after 12 months     | 9,719                 | 7,135                 | 8,505   |
| Deferred income tax assets to be recovered within 12 months    | 2,393                 | 2,820                 | 2,541   |
|  | 12,112                | 9,955                 | 11,046  |
| Deferred income tax liabilities:                               |                       |                       |   |
| Deferred income tax liabilities to be settled after 12 months  | (1,830)               | (2,040)               | (5,159)   |
| Deferred income tax liabilities to be settled within 12 months | (576)                 | (690)                 | (770)   |
|  | (2,406)               | (2,730)               | (5,929)   |
| Net deferred income tax assets (Notes 3 and 4)                 | 9,706                 | 7,225                 | 5,117   |

The analysis of our consolidated net deferred income tax liabilities as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|--|-----------------------|----------------------|-------------------|
|  | (Unaudited)           | (As Adjusted         | d – Note 2)       |
|  |                       | (in million pesos)   |                   |
| Deferred income tax assets:                                    |                       |                      |                   |
| Deferred income tax assets to be recovered after 12 months     | 473                   | 835                  | -                 |
| Deferred income tax assets to be recovered within 12 months    | 16                    | 263                  | 274               |
|  | 489                   | 1,098                | d – Note 2)<br>–  |
| Deferred income tax liabilities:                               |                       |                      |                   |
| Deferred income tax liabilities to be settled after 12 months  | (3,865)               | (6,173)              | (6,982)           |
| Deferred income tax liabilities to be settled within 12 months | (983)                 | (638)                | (370)             |
|  | (4,848)               | (6,811)              | (7,352)           |
| Net deferred income tax liabilities (Notes 3 and 4)            | (4,359)               | (5,713)              | (7,078)           |

Provision for (benefit from) corporate income tax from continuing operations for the nine months ended September 30, 2013 and 2012 consists of:

|                   | 2013        | 2012                                       |
|-------------------|-------------|--|
|                   | (Unaudited) | (Unaudited and<br>as Adjusted –<br>Note 2) |
|                   | (in millio  | on pesos)                                  |
| Current           | 10,177      | 7,585                                      |
| Deferred (Note 3) | (3,906)     | 687  |
|                   | 6,271       | 8,272                                      |

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for corporate income tax for the nine months ended September 30, 2013 and 2012 are as follows:

|  | 2013        | 2012                            |
|--|-------------|---------------------------------|
|  |             | (Unaudited and<br>as Adjusted – |
|  | (Unaudited) | Note 2)                         |
|  | (in millio  | on pesos)                       |
| Provision for income tax at the applicable statutory tax rate:   | ,           | . ,                             |
| Continuing operations  | 9,959       | 10,881                          |
| Discontinued operations (Note 2)   | 637         | 187                             |
|  | 10,596      | 11,068                          |
| Tax effects of:  |             |                                 |
| Nondeductible expenses   | 239         | 581                             |
| Income not subject to income tax   | (131)       | (767)                           |
| Income subject to final tax  | (537)       | (598)                           |
| Equity share in net earnings of associates and joint ventures  | (571)       | (432)                           |
| Income subject to lower tax rate   | (657)       | (130)                           |
| Difference between OSD and itemized deductions   | (1,477)     | (100)                           |
| Net movement in unrecognized deferred income tax assets and other adjustments  | (1,136)     | (1,191)                         |
|  | (4,270)     | (2,537)                         |
| A short successful and successful to success |             |                                 |
| Actual provision for corporate income tax:   | 0.074       | 0.070                           |
| Continuing operations  | 6,271       | 8,272                           |
| Discontinued operations (Note 2)   | 55          | 259                             |
|  | 6,326       | 8,531                           |

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act No. 9504 on OSD. Under the OSD method of computing taxable income, corporations may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

Certain deferred income tax assets and liabilities of Smart and SBI, for which the related income and expenses are not considered in determining gross income for income tax purposes, are not recognized as deferred income tax assets and liabilities in the consolidated statements of financial position. This is because the manner by which they expect to recover or settle the underlying assets and liabilities would not result in any future tax consequence. Deferred income tax assets and liabilities, for which the related income and expenses are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence assuming OSD method was applied, which results in such deferred income tax assets and liabilities being reduced by the 40% allowable deduction that are provided for under the OSD method. Accordingly, the deferred income tax assets and liabilities that were not recognized due to the OSD method amounted to Php4,620 million, Php3,655 million and Php4,240 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Recognition of Deferred Income Tax Assets and Liabilities.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of the OSD method) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--|-----------------------|----------------------|--------------------|
|  | (Unaudited) (Audited) |                      |                    |
|  |                       | (in million pesos)   |                    |
| Fixed asset impairment   | 19,184                | 23,881               | 29,029             |
| Provisions for other assets                                    | 7,116                 | 8,303                | 6,532              |
| Unearned revenues  | 5,249                 | 5,023                | 893                |
| Accumulated provision for doubtful accounts                    | 3,624                 | 3,177                | 4,113              |
| NOLCO  | 2,051                 | 8,741                | 11,372             |
| Pension and other employee benefits                            | 1,070                 | 155                  | 127                |
| Asset retirement obligation                                    | 917                   | 902                  | 627                |
| MCIT   | 363                   | 133                  | 133                |
| Accumulated write-down of inventories to net realizable values | 157                   | 167                  | 270                |
| Derivative financial instruments                               | 146                   | 132                  | 155                |
| Unrealized foreign exchange losses                             | 23                    | 28                   | 22                 |
| Operating lease and others                                     | 180                   | 217                  | 76                 |
|  | 40,080                | 50,859               | 53,349             |
| Unrecognized deferred income tax assets (Note 3)               | 12,278                | 15,351               | 16,098             |

As at September 30, 2013, Digitel Group's deferred income tax assets were not recognized because management believes that there is no sufficient future taxable income that will be available upon which these can be utilized. Digitel Group's unrecognized deferred income tax assets amounted to Php12,028 million, Php15,098 million and Php14,766 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at September 30, 2013 are as follows:

| Date Incurred  | Expiry Date       | MCIT  | NOLCO                                      |  |
|--|-------------------|---|--|--|
|  |                   | (in million pesos)  |  |  |
| December 31, 2010                                    | December 31, 2013 | (in million pesos)<br>7 162<br>7 1,590<br>266 208<br>124 450<br>404 2,410 |  |  |
| December 31, 2011                                    | December 31, 2014 | 7   | 1,590                                      |  |
| December 31, 2012                                    | December 31, 2015 | 266   | 208  |  |
| September 30, 2013                                   | December 31, 2016 | 124   | 450  |  |
|  |                   | 404   | 162<br>1,590<br>208<br>450<br>2,410<br>723 |  |
| Consolidated tax benefits                            |                   | 404   | 723  |  |
| Consolidated unrecognized deferred income tax assets |                   | (363)   | (616)                                      |  |
| Consolidated recognized deferred income tax assets   |                   | 41  | 107  |  |

The excess MCIT totaling Php404 million as at September 30, 2013 can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due amounted to Php4 million and Php12 million for the nine months ended September 30, 2013 and 2012, respectively. The amount of expired portion of excess MCIT amounted to Php2 million and Php16 million for the nine months ended September 30, 2013 and 2012, respectively.

NOLCO totaling Php2,410 million as at September 30, 2013 can be claimed as deduction against future taxable income. The NOLCO claimed as deduction against taxable income amounted to Php5,068 million and Php742 million for the nine months ended September 30, 2013 and 2012, respectively. The amount of expired portion of excess NOLCO amounted to nil and Php988 million for the nine months ended September 30, 2013 and 2012, respectively.

There are no income tax consequences attached to the payment of dividends in 2013 and 2012 by the PLDT Group to its shareholders.

# Registration with Subic Bay Freeport and Clark Special Economic Zone

SubicTel is registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

#### Registration with Philippine Economic Zone Authorities, or PEZA

SeMI was registered with the PEZA as an Ecozone IT enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SeMI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009. However, SeMI is in a net loss position as at June 2013 and for the year ended December 2012, hence, no tax incentives were availed from the registration with the Economic Zone.

On July 23, 2013, PEZA approved IPCDSI's application for pioneer status as an Ecozone IT enterprise (takeover of PEZA-registered activities of IP Converge Data Center, Inc., or IPDCI). IPCDSI was granted a threeyear ITH for its expansion project up to June 29, 2015, among others. Income from its IT operations shall be covered by the 5% gross income tax incentive, in lieu of all national and local taxes, including additional deductions for training expenses.

#### Registration with BOI

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility starting January 2007. Income derived after the expiration of the ITH is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI amounted to Php30 million and Php147 million for the nine months ended September 30, 2013 and 2012, respectively.

# 8. Earnings Per Common Share

The following table presents information necessary to calculate the EPS for the nine months ended September 30, 2013 and 2012:

|  | 2               | 013              | 2                | 2012                     |  |
|--|-----------------|------------------|------------------|--------------------------|--|
|  | (Una            | udited)          |                  | ed and as<br>d – Note 2) |  |
|  | Basic           | Diluted          | Basic            | Diluted                  |  |
|  |                 | (in millio       | n pesos)         |                          |  |
| Net income attributable to equity holders of PLDT from:              |                 |                  |                  |                          |  |
| Continuing operations  | 26,885          | 26,885           | 28,021           | 28,021                   |  |
| Discontinued operations (Notes 2 and 4)                              | 2,069           | 2,069            | 363              | 363                      |  |
| Consolidated net income attributable to common shares (Note 4)       | 28,954          | 28,954           | 28,384           | 28,384                   |  |
| Dividends on preferred shares (Note 19)                              | (44)            | (44)             | (37)             | (37                      |  |
| Consolidated net income attributable to common equity holders of PLD | ⊺ <b>28,910</b> | 28,910           | 28,347           | 28,347                   |  |
|  | (in             | thousands, excep | t per share amou | ints)                    |  |
| Outstanding common shares at beginning of the period                 | 216,056         | 216,056          | 214,436          | 214,436                  |  |
| Effect of issuance of common shares during the period (Note 19)      | -               | ´ –              | 1,619            | 1,619                    |  |
| Weighted average number of common shares                             | 216,056         | 216,056          | 216,055          | 216,055                  |  |
| EPS from continuing operations                                       | 124.23          | 124.23           | 129.52           | 129.52                   |  |
| EPS from discontinued operations (Notes 2 and 4)                     | 9.58            | 9.58             | 1.68             | 1.68                     |  |
| EPS attributable to common equity holders of PLDT (Note 4)           | Php133.81       | Php133.81        | Php131.20        | Php131.20                |  |

Basic EPS amounts are calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares, except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares issued and outstanding during the period.

Diluted EPS amounts are calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the period, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the period exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares held as treasury shares, and including the common shares equivalent arising from the conversion of the dilutive convertible preferred shares and from the mandatory tender offer for all remaining Digitel shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

# 9. Property, Plant and Equipment

Changes in property, plant and equipment account for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|   | Cable and<br>wire<br>facilities | Central<br>office<br>equipment | Cellular<br>facilities | Buildings<br>and<br>improvements | Vehicles,<br>furniture<br>and other<br>network<br>equipment | Communications satellite | Information<br>origination<br>and<br>termination<br>equipment | Land and<br>land<br>improvements | Property<br>under<br>construction | Total                |
|---|---------------------------------|--------------------------------|------------------------|----------------------------------|---|--------------------------|---|----------------------------------|-----------------------------------|----------------------|
|   |                                 |                                |                        |                                  | (in mill  | ion pesos)               |   |                                  |                                   |                      |
| January 1, 2012 (Unaudited)<br>Cost   | 146,430                         | 92,953                         | 119,791                | 24,299                           | 40,731  | 966                      | 9,102   | 3,014                            | 44,361                            | 481,647              |
| Accumulated depreciation,<br>impairment and amortization  | (86,947)                        | (72,368)                       | (68,473)               | (11,716)                         | (32,881)  | (966)                    | (7,876)   | (278)                            | -                                 | (281,505)            |
| Net book value  | 59,483                          | 20,585                         | 51,318                 | 12,583                           | 7,850   | -                        | 1,226   | 2,736                            | 44,361                            | 200,142              |
| Year Ended December 31, 2012  | (Audited)                       |                                |                        |                                  |   |                          |   |                                  |                                   |                      |
| Net book value at beginning   | (Addited)                       |                                |                        |                                  |   |                          |   |                                  |                                   |                      |
| of the year   | 59,483                          | 20,585                         | 51,318                 | 12,583                           | 7,850   | -                        | 1,226   | 2,736                            | 44,361                            | 200,142              |
| Additions<br>Disposals/Retirements  | 2,750                           | 415                            | 8,879                  | 562                              | 2,549<br>(74)   | -                        | 387   | 2                                | 21,144                            | 36,688               |
| Translation differences charged<br>directly to cumulative   | (10)                            | (5)                            | (26)                   | (4)                              | (74)  | -                        | -   | (7)                              | -                                 | (126)                |
| translation adjustments   | (2)                             | (10)                           | -                      | (15)                             | (49)  | -                        | -   | -                                | (7)                               | (83)                 |
| Acquisition through business  | . ,                             | . ,                            |                        | . ,                              | . ,   |                          |   |                                  | (.)                               | . ,                  |
| combinations (Note 13)  | 112                             | 104                            | -                      | 45                               | 6   | -                        | -   | -                                | -                                 | 267                  |
| Impairment losses recognized<br>during the year<br>Reclassifications  | (5)                             | -                              | (2,876)                | -                                | -   | -                        | -   | -                                | -                                 | (2,881)              |
| (Notes 12 and 17)   | 1,543                           | (321)                          | (3,452)                | 131                              | 2,438   | -                        | (65)  | 401                              | (253)                             | 422                  |
| Transfers   | 8,000                           | 4,045                          | 4,227                  | 449                              | 990   | -                        | 47  | _                                | (17,758)                          | -                    |
| Depreciation of revaluation<br>increment on investment<br>properties transferred to<br>property, plant and<br>equipment charged to other  |                                 |                                |                        |                                  |   |                          |   |                                  |                                   |                      |
| comprehensive income  | -                               | -                              | -                      | (2)                              | -   | -                        | -   | -                                | -                                 | (2)                  |
| Depreciation and amortization   | (11.000)                        | (4.400)                        | (0.070)                | (1.100)                          | (5.000)   |                          | (500)   |                                  |                                   | (00.000)             |
| (Note 2)<br>Discontinued operations<br>(Note 2)   | (11,380)                        | (4,130)<br>(155)               | (9,678)                | (1,493)<br>(340)                 | (5,606)<br>(694)  | -                        | (532)   | (1)<br>(165)                     | (175)                             | (32,820)<br>(1,529)  |
| Net book value at end of the  |                                 | (155)                          |                        | (340)                            | (094)   |                          |   | (105)                            | (173)                             | (1,523)              |
| year (Note 3)   | 60,491                          | 20,528                         | 48,392                 | 11,916                           | 7,410   | -                        | 1,063   | 2,966                            | 47,312                            | 200,078              |
| As at December 31, 2012 (Audit<br>Cost  | <b>ed)</b><br>157,036           | 95,258                         | 100,935                | 24,333                           | 42,628  | 966                      | 9,341   | 3,224                            | 47,312                            | 481,033              |
| Accumulated depreciation,<br>impairment and amortization  | (96,545)                        | (74,730)                       | (52,543)               | (12,417)                         | (35,218)  | (966)                    | (8.278)   | (258)                            | _                                 | (280,955)            |
| Net book value (Note 3)   | 60,491                          | 20,528                         | 48,392                 | 11,916                           | 7,410   | (300)                    | 1,063   | 2,966                            | 47,312                            | 200,078              |
| Period Ended September 30, 20<br>Net book value at beginning  |                                 |                                | 10.000                 |                                  | 7.440   |                          | 4 000   | 0.000                            | 17.040                            | 000.070              |
| of the period (Note 3)<br>Additions   | 60,491<br>1,797                 | 20,528<br>162                  | 48,392<br>4,073        | 11,916<br>210                    | 7,410<br>1,302  | _                        | 1,063<br>490  | 2,966<br>7                       | 47,312<br>6,874                   | 200,078<br>14,915    |
| Disposals/Retirements   | (19)                            | (99)                           | 4,073                  |                                  | (68)  | -                        | 490   | -                                | - 0,014                           | (216)                |
| Translation differences charged<br>directly to cumulative   |                                 |                                | ()                     |                                  |   |                          | (-)   |                                  |                                   |                      |
| translation adjustments<br>Reclassifications  | 4                               | 3                              | -                      | -                                | 2   | -                        | -   | -                                | -                                 | 9                    |
| (Notes 12 and 17)<br>Depreciation of revaluation<br>increment on investment<br>properties transferred to  | 52                              | 17                             | 265                    | 4                                | 1   | -                        | -   | -                                | (1,365)                           | (1,026)              |
| property, plant and   |                                 |                                |                        |                                  |   |                          |   |                                  |                                   |                      |
| equipment charged to other<br>comprehensive income<br>Transfers and others  | _<br>3,698                      | 2,434                          | 4,528                  | (2)<br>213                       | _<br>849  | -<br>-                   | _<br>119  | -<br>3                           | (11,844)                          | (2)                  |
| equipment charged to other<br>comprehensive income  |                                 |                                | -<br>4,528<br>(8,133)  |                                  |   | -<br>-                   |   | -<br>3<br>(2)                    | (11,844)<br>_                     | (2)<br>-<br>(22,180) |
| equipment charged to other<br>comprehensive income<br>Transfers and others<br>Depreciation and amortization   |                                 |                                |                        | 213                              |   |                          |   |                                  | (11,844)<br><br>40,977            | -                    |
| equipment charged to other<br>comprehensive income<br>Transfers and others<br>Depreciation and amortization<br>(Notes 2, 3 and 4)<br>Net book value at end of the<br>period(Note 3) | (6,968)<br>59,055               | (2,831)                        | (8,133)                | 213<br>(1,012)                   | (2,787)   |                          | (447)   | (2)                              |                                   | -<br>(22,180)        |
| equipment charged to other<br>comprehensive income<br>Transfers and others<br>Depreciation and amortization<br>(Notes 2, 3 and 4)<br>Net book value at end of the                   | (6,968)<br>59,055               | (2,831)                        | (8,133)                | 213<br>(1,012)                   | (2,787)   | -<br>-<br>-<br>966       | (447)   | (2)                              |                                   | -<br>(22,180)        |

Substantially all of our telecommunications equipment are purchased outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, which are principally in U.S. dollars. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

Interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php526 million and Php699 million for the nine months ended September 30, 2013 and 2012, respectively. See *Note* 5 – *Income and Expenses* – *Financing Costs*. Our undepreciated interest capitalized to property, plant and equipment that qualified as borrowing costs amounted to Php7,288 million, Php7,686 million and Php10,357 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The average interest capitalization rate used was approximately 5% for each of the nine months ended September 30, 2013 and 2012.

Our undepreciated capitalized net foreign exchange losses, which qualified as borrowing costs amounted to Php4 million, Php353 million and Php837 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. There were no additional capitalized foreign exchange differences, which qualified as borrowing costs for the nine months ended September 30, 2013 and 2012.

The useful lives of our property, plant and equipment are estimated as follows:

| Cable and wire facilities                         | 10 – 15 years |
|---|---------------|
| Central office equipment                          | 3 – 15 years  |
| Cellular facilities                               | 3 – 10 years  |
| Buildings   | 25 years      |
| Vehicles, furniture and other network equipment   | 3 – 5 years   |
| Information origination and termination equipment | 3 – 5 years   |
| Leasehold improvements                            | 3 – 5 years   |
| Land improvements                                 | 10 years      |

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases, which amounted to Php19 million, Php22 million and Php6 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases*.

### Impairment of Certain Network Equipment and Facilities of DMPI

In December 2012, DMPI recognized an impairment loss of Php2,881 million representing write-down of certain telecommunications equipment and related infrastructure to their recoverable amounts. The impairment loss pertains to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT's wireless business unit, Smart.

The necessary alignment of the DMPI's network with the massive modernization program of Smart due to advancement in technologies resulted to an impairment of certain equipment and facilities of the former based on an overall assessment and synergy plan.

### Impairment of Certain Network Equipment and Facilities of Smart

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer support our network modernization program, which was discussed and approved by Smart's Board of Directors on February 28, 2011 and have been identified for replacement. The modernization program is designed to enable the delivery and fulfillment of advanced capabilities to support multimedia services and upcoming technologies in our technology roadmap by substantially expanding capacity, enhancing capabilities and improving quality of experience to meet the increasing demand for cellular, and advanced broadband services in a highly competitive playing field. This program is expected to result to savings in operating expenses, as well as alignment of Smart and Digitel networks. The full impairment provision recognized for the nine months ended September 30, 2013 and for the year ended December 31, 2012.

#### 10. Investments in Associates, Joint Ventures and Deposits

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|   | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|---|-----------------------|----------------------|-------------------|
|   | (Unaudited)           | (Audi                | ted)              |
|   |                       | (in million pesos)   |                   |
| Carrying value of investments in associates:                          |                       |                      |                   |
| MediaQuest  | 9,600                 | -                    | -                 |
| Beta  | 1,747                 | -                    | -                 |
| Pacific Global One Aviation Co., Inc., or PG1                         | 114                   | 132                  | 155               |
| Digitel Crossing, Inc., or DCI  | 90                    | 90                   | 92                |
| Philweb Corporation, or Philweb                                       | -                     | -                    | 1,025             |
| ACeS International Limited, or AIL                                    | -                     | -                    | _                 |
| Asia Netcom Philippines Corp., or ANPC                                | -                     | -                    | -                 |
|   | 11,551                | 222                  | 1,272             |
| Carrying value of investments in joint ventures:                      |                       |                      |                   |
| Beacon Electric Asset Holdings, Inc., or Beacon                       | 23,137                | 20,801               | 16,593            |
| Mobile Payment Solutions Pte. Ltd., or MPS                            | · -                   | 54                   | -                 |
| PLDT Italy S.r.I., or PLDT Italy                                      | -                     | -                    | -                 |
|   | 23,137                | 20,855               | 16,593            |
| Deposit for future PDRs:  |                       |                      |                   |
| MediaQuest  | 350                   | 6,000                | -                 |
| Total carrying value of investments in associates, joint ventures and |                       |                      |                   |
| deposits  | 35,038                | 27,077               | 17,865            |

Changes in the cost of investments and deposits for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|                                    | 2013        | 2012      |
|------------------------------------|-------------|-----------|
|                                    | (Unaudited) | (Audited) |
|                                    | (in millic  | n pesos)  |
| Balance at beginning of the period | 26,312      | 18,196    |
| Additions during the period        | 5,593       | 8,843     |
| Assets classified as held-for-sale | -           | (712)     |
| Translation and other adjustments  | 109         | (15)      |
| Balance at end of the period       | 32,014      | 26,312    |

Changes in the accumulated impairment losses for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|                                    | 2013        | 2012      |
|------------------------------------|-------------|-----------|
|                                    | (Unaudited) | (Audited) |
|                                    | (in million | pesos)    |
| Balance at beginning of the period | 1,877       | 1,882     |
| Translation and other adjustments  | 4           | (5)       |
| Balance at end of the period       | 1,881       | 1,877     |

Changes in the accumulated equity share in net earnings of associates and joint ventures for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|   | 2013        | 2012      |
|---|-------------|-----------|
|   | (Unaudited) | (Audited) |
|   | (in million | pesos)    |
| Balance at beginning of the period                                      | 2,642       | 1,551     |
| Equity share in net earnings of associates and joint ventures (Note 4): | 1,903       | 1,538     |
| Beacon  | 1,836       | 1,508     |
| Beta  | 152         | _         |
| PG1   | (18)        | (26)      |
| MPS   | (67)        | (78)      |
| Philweb*  | _           | 136       |
| DCI   | -           | (2)       |
| Dividends   | -           | (33)      |
| Assets classified as held-for-sale                                      | -           | (416)     |
| Translation and other adjustments                                       | 360         | 2         |
| Balance at end of the period  | 4,905       | 2,642     |

\* Represents share in net earnings of Philweb for the nine months ended September 30, 2012.

#### Investments in Associates

### Investment in MediaQuest

In 2012, ePLDT made deposits totaling Php6 billion to MediaQuest, an entity wholly-owned by the BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV. Cignal TV is a wholly-owned subsidiary of Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 540 thousand net subscribers as at September 30, 2013.

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

- a Php3.6 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Satventures. The Satventures PDRs confer an economic interest in common shares of Satventures owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Satventures; and
- a Php1.95 billion investment by ePLDT in PDRs to be issued by MediaQuest in relation to its interest in Hastings Holdings, Inc., or Hastings. The Hastings PDRs confer an economic interest in common shares of Hastings owned by MediaQuest, and when issued, will provide ePLDT with a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest and holds all the print-related investments of MediaQuest, including minority positions in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. See Note 25 – Employee Benefits – Unlisted Equity Investments – Investment in MediaQuest.

For the nine months ended September 30, 2013, ePLDT made various deposits aggregating to Php3.6 billion and Php350 million for its investment in Satventures PDRs and Hastings PDRs of MediaQuest, respectively. Also in October 2013, ePLDT made additional deposit of Php400 million for its investment in Hasting PDRs of MediaQuest.

The Php6 billion Cignal TV PDRs and Php3.6 billion Satventures PDRs were issued on September 27, 2013. These PDRs will provide ePLDT an aggregate of 64% economic interest in Cignal TV.

ePLDT's deposit for future PDRs subscription amounted to Php350 million for Hastings PDRs as at September 30, 2013 and Php6 billion for Cignal TV PDRs as at December 31, 2012.

As at November 5, 2013, the Hastings PDRs have not yet been issued.

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

# Investment of PLDT Global Investments Corporation, or PGIC, in Beta

On February 5, 2013, PLDT entered into a Subscription and Shareholders' Agreement with Asia Outsourcing Alpha Limited, or Alpha, and Beta, wherein PLDT, through its indirect subsidiary PGIC, acquired from Alpha approximately 19.7% equity interest in Beta for a total cost of approximately US\$40 million, which consists of preferred shares of US\$39.8 million and ordinary shares of US\$0.2 million. In June 2013, PGIC transferred 112 ordinary shares and 41,069 preferred shares to certain employees of Beta for a total consideration price of US\$42 thousand. The equity interest of PGIC in Beta remained at 19.7% after the transfer with economic interest of 18.24%. See related discussion on *Note 2 – Summary of Significant Accounting Policies – Discontinued Operations*.

Alpha and Beta are both exempted limited liability companies incorporated under the laws of Cayman Islands and are both controlled by CVC. Beta has been designated to be the holding company of the SPi Group.

PGIC is a wholly-owned subsidiary of PLDT Global, which was incorporated under the laws of British Virgin Islands.

#### Investment in PG1

On June 14, 2011, PLDT, Meralco Powergen Corporation, or MPG, Philex Mining Corporation, or Philex, Metro Pacific Tollways Corporation, or MPTC, Metro Pacific Investments Corporation, or MPIC, and Jubilee Sky Limited, or JSL, entered into a shareholders' agreement to establish PG1, with the purpose of carrying on, by means of aircraft of every kind or description, the general business of common and/or private carrier. PLDT subscribed for 125 million common shares with an aggregate value of Php125 million, representing 50% equity interest in PG1 and 30 million preferred shares with an aggregate value of Php30 million, which were all paid by assigning to PG1 certain aircraft and other related assets of PLDT. The difference between the Php244 million fair value of the assets and the Php155 million total subscription price amounting to Php89 million shall be paid by PG1 to PLDT in cash as soon as reasonably practicable after incorporation.

MPG, Philex, MPTC, MPIC and JSL owns 5%, 15%, 5%, 10% and 15% of PG1, respectively. PLDT has significant influence in PG1, and was accounted for as investment in associate.

PLDT has agreed to transfer 10% of its common shares to MPG, within a reasonable time after incorporation of PG1, to increase MPG's ownership to 15% and reduce PLDT's ownership to 40% of the outstanding common shares of PG1.

### Investment of Digitel in DCI and ANPC

Digitel has 60% and 40% interest in ANPC and DCI, respectively. DCI is involved in the business of cable system linking Philippines, United States and other neighboring countries in Asia. ANPC is an investment holding company owning 20% of DCI.

In December 2000, Digitel, Pacnet Network (Philippines), Inc., or PNPI, (formerly Asia Global Crossing Ltd.) and BT Group O/B Broadband Infrastructure Group Ltd., or BIG, entered into a Joint Venture Agreement, or JVA, under which the parties agreed to form DCI with each party owning 40%, 40% and 20%, respectively. DCI was incorporated to develop, provide and market backhaul network services, among others.

On April 19, 2001, after BIG withdrew from the proposed joint venture, or JV, Digitel and PNPI formed ANPC to replace BIG. Digitel contributed US\$2 million, or Php69 million, for a 60% equity interest in ANPC while PNPI owned the remaining 40% equity interest.

Digitel provided full impairment loss on its investment in DCI and ANPC in prior years on the basis that DCI and ANPC have incurred significant recurring losses in the past. In 2011, Digitel recorded a reversal of impairment loss amounting to Php92 million following recent improvement in the associates' operations.

Digitel has no control over ANPC despite owning more than half of voting interest because of certain governance matters, and management has assessed that Digitel only has significant influence.

Digitel's investment in DCI does not qualify as investment in JV as there is no provision for joint control in the JV agreement among Digitel, PNPI and ANPC.

Following PLDT's acquisition of a controlling stake in Digitel, PNPI, on November 4, 2011, sent a notice to exercise its Call Right under Section 6.3 of the JVA, which provides for a Call Right exercisable by PNPI following the occurrence of a Digitel change in control. As at the date of issuance of this report, Digitel management is ready to conclude the transfer of its investment in DCI, subject to PNPI's ability to meet certain regulatory and valuation requirements.

# Investment of ePLDT in Philweb

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide.

In May 2006, ePLDT subscribed to newly issued common shares of Philweb for an aggregate amount of Php503 million, representing 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. The remaining Php75 million was paid in July 2012, as discussed below.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share for an aggregate amount of Php209 million.

On September 22, 2009, PSE approved the change in par value of Philweb shares from Php0.01 to Php1.00. Thus, the total number of shares subscribed by ePLDT was reduced to 332 million shares from 33,157 million shares.

The market value of ePLDT's investment in Philweb amounted to Php5,093 million, based on quoted share price of Php15.36 as at December 31, 2011.

On April 19, 2012, Philweb approved the 20% stock dividend declaration payable on May 30, 2012 to stockholders of record as at May 4, 2012, thereby increasing ePLDT's shares to 398 million shares.

On June 30, 2012, as a result of the committed plan of ePLDT to sell its interest over Philweb following a strategic review of the PLDT Group's business, the investment in Philweb was reclassified as assets held-for-sale in accordance with *PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations*. Consequently, the assets held-for-sale was carried at the carrying value of the investment in Philweb, which is lower than the fair value less costs to sell of the Philweb shares.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT's 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. See *Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Assets Held-for-Sale and Discontinued Operations*. Philweb shall have the unilateral option to accelerate the acquisition of the portion of the subject shares corresponding to the second to fourth tranches upon prior written notice of five days to ePLDT. The rights (including the rights to receive dividend) to the first to fourth tranches of the subject shares shall belong to Philweb after the closing of the sale of each tranche. The first tranche, which was transacted on July 13, 2012, was for 93.5 million common shares for a purchase price of Php1 billion. The first tranche payment is net of subscriptions payable of Php75 million.

On October 17, 2012, a Supplement to the Share Purchase Agreement was entered into wherein Philweb designated its wholly-owned subsidiary, Philweb Casino Corporation, or PCC, to act as the buyer of the second to fourth tranches and to make the second to fourth payments.

Subsequently, on October 18, 2012, a Second Supplement to the Share Purchase Agreement was agreed upon between Philweb, ePLDT and PCC, wherein PCC, as the designee of Philweb notified ePLDT of its desire to exercise its option to accelerate the acquisition of the portion of the Philweb shares corresponding to the second tranche from December 12, 2012 to October 18, 2012, or one day after the PSE approves the special block sale, whichever is later. The acquisition of the second tranche, which was for 93.5 million common shares for a purchase price of Php1 billion, was completed on October 19, 2012.

On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion.

The remaining balance of assets held-for-sale amounted to Php355 million and Php638 million as at September 30, 2013 and December 31, 2012, respectively.

On December 13, 2013, the fourth tranche was paid for 118 billion common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche, or Php1.296 billion. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments – ePLDT Group*.

## Investment of ACeS Philippines in AIL

As at September 30, 2013, ACeS Philippines held 36.99% equity interest in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AlL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AlL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AlL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AlL in 2003.

Unrecognized share in net income of AIL amounted to Php251 million and Php3 million for the nine months ended September 30, 2013 and 2012, respectively. Share in net cumulative losses amounting to Php1,500 million, Php2,005 million and Php2,035 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, were not recognized as we do not have any legal or constructive obligation to pay for such losses and have not made any payments on behalf of AIL.

See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AlL Related Agreements and Note 27 – Financial Assets and Liabilities – Liquidity Risk – Unconditional Purchase Obligations for further details as to the contractual relationships with respect to AlL.

## Summarized Financial Information of Associates

The following tables present our share in the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence as at September 30, 2013, December 31, 2012 and January 1, 2012 and for the nine months ended September 30, 2013 and 2012:

|                                   | September 30, | December 31,       | January 1 |
|-----------------------------------|---------------|--------------------|-----------|
|                                   | 2013          | 2012               | 2012      |
|                                   | (Unaudited)   | (Audi              | ited)     |
|                                   |               | (in million pesos) |           |
| Statements of Financial Position: |               |                    |           |
| Noncurrent assets                 | 2,580         | 296                | 893       |
| Current assets                    | 1,343         | 610                | 912       |
| Capital deficiency                | (135)         | (1,678)            | (858)     |
| Noncurrent liabilities            | 2,157         | 872                | 1,489     |
| Current liabilities               | 1,901         | 1,712              | 1,174     |
|                                   |               |                    |           |
|                                   |               | 2013               | 2012      |
|                                   |               | (Unau              | dited)    |
|                                   |               | (in millior        | n pesos)  |
| Income Statements:                |               |                    |           |
| Revenues                          |               | 912                | 104       |
| Expenses                          |               | 815                | 121       |
| Other income                      |               | 101                | 2         |
| Net income (loss)                 |               | 198                | (15)      |

We have no outstanding contingent liabilities or capital commitments with our associates as at September 30, 2013, December 31, 2012 and January 1, 2012.

### Investments in Joint Ventures

### Investment in Beacon

On March 1, 2010, PCEV, MPIC, and Beacon, entered into an Omnibus Agreement, or OA. Beacon was incorporated in the Philippines and organized with the sole purpose of holding the respective shareholdings in Manila Electric Company, or Meralco, of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity interest in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Beacon's authorized capital stock of Php5,000 million consists of 3 billion common shares with a par value of Php1 per share and 2 billion preferred shares with a par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon and have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preferred shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

On March 30, 2010, MPIC subscribed to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or an aggregate amount of Php24,540 million; and (2) Php6,600 million in cash as further described below in "Transfer of Meralco Shares to Beacon" section.

PCEV likewise subscribed to 1,156.5 million common shares of Beacon on March 30, 2010 in consideration of the transfer of 154.2 million Meralco common shares at a price of Php150 per share, or an aggregate amount of Php23,130 million.

## Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares pursuant to the OA, Beacon purchased 154.2 million and 163.6 million Meralco common shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares. PCEV transferred the 154.2 million Meralco common shares to Beacon on May 12, 2010. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

PCEV recognized a deferred gain of Php8,047 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,083 million carrying amount in PCEV's books of the Meralco shares transferred since the transfer was between entities with common shareholders. The deferred gain, presented as a reduction in PCEV's investment in Beacon common shares, will only be realized upon the disposal of the Meralco shares to a third party.

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

Since the transactions involve entities with common shareholders, PCEV recognized a deferred gain on transfer of the Meralco shares amounting to Php8,145 million, equivalent to the difference between the Php15,136 million transfer price of the Meralco shares and the Php6,991 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain was presented as an adjustment to the investment cost of the Beacon preferred shares in 2011. Similar to the deferred gain on the transfer of the 154.2 million Meralco shares, the deferred gain will only be realized upon the disposal of the Meralco shares to a third party.

The carrying value of PCEV's investment in Beacon, representing 50% of Beacon's common shares outstanding, was Php23,137 million, Php20,801 million and Php16,593 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

## PCEV's Additional Investment in Beacon

On January 20, 2012, PCEV subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million. On the same date, MPIC also subscribed to 135 million Beacon common shares for a total cash consideration of Php2,700 million.

## Sale of Beacon Preferred Shares to MPIC

On June 6, 2012, PCEV sold 282.2 million of its investment in Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million, which took effect on June 29, 2012. In this instance, the sale of Beacon preferred shares is deemed as a sale between non-related entities. Consequently, PCEV realized a portion of the deferred gain, amounting to Php2,012 million, which was recorded when the underlying Meralco shares were transferred to Beacon. The carrying value of PCEV's investment in Beacon's preferred shares classified as available-for-sale financial assets, amounting to Php5,440 million each as at September 30, 2013 and December 31, 2012 and Php6,991 million as at January 1, 2012 was presented as part of "available-for-sale financial investments" account in our consolidated statements of financial position.

On October 30, 2013, PCEV's Board of Directors confirmed management's change in view and purpose of investment in Beacon preferred shares, from investment available-for-sale to strategic investment intended to generate safe and steady returns which PCEV intends to hold on to in the long-term, similar to its investment in common shares. The change in assessment will result to the investment in Beacon preferred shares being reclassified from available-for-sale investments to investment in joint venture (both are noncurrent assets) effective upon approval by PCEV's Board of Directors.

#### Call Option

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

On March 30, 2010, Beacon exercised the Call Option and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million.

#### Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option and the 68.8 million shares transferred by PCEV to Beacon in October 2011, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, Rockwell Land Corporation, or Rockwell, common shares that may be declared as property dividends by Meralco. Beacon recognized in March 2010, a liability for contingent consideration amounting to Php2,373 million for said Rockwell common shares. The liability for contingent consideration was remeasured based on the fair value of said Rockwell common shares as at December 31, 2011 and 2010 and the resulting remeasurement loss of Php317 million and Php331 million were charged to Beacon's profit or loss for the years ended December 31, 2011 and 2010, respectively.

On February 27, 2012, Meralco's Board of Directors declared its common shareholdings in Rockwell as property dividend, to shareholders of record as at March 23, 2012, payable five days after the approval by the Philippine SEC of such property dividend, which approval was issued on April 25, 2012. Thereafter, Beacon recognized the property dividend received from Meralco as "Investment in available-for-sale financial assets" account. On June 27, 2012, Beacon sold its investment in Rockwell common shares, arising from Meralco shares acquired from the market, to FPHC and FPHC Pension Fund for a cash consideration of Php2 per share or an aggregate amount of Php283 million, thus, recognizing a gain on disposal of investment amounting to Php77 million for the difference between the consideration and the value of the property dividend. On June 27 and 28, 2012, Beacon transferred its investment in Rockwell common shares arising from Meralco shares acquired from PCEV, MPIC, FPHC and First Philippine Utilities Corporation, or FPUC, to FPHC through a crossed sale at the PSE. With the transfer, Beacon derecognized the outstanding balance of its liability for contingent consideration.

#### Governance Arrangements

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

#### Beacon's Acquisition of Additional Meralco Shares

A summary of Beacon's purchases of Meralco shares for the past three years are shown below (in millions except for nominal value per share):

| Date                  | Number of<br>Shares | Beneficial<br>Ownership | Nominal Value<br>Per Share | Aggregate<br>Cost* |
|-----------------------|---------------------|-------------------------|----------------------------|--------------------|
| Various dates in 2011 | 49.9                | 4.40%                   | -                          | 14,310.0           |
| January 2012          | 30.0                | 2.70%                   | 295                        | 9,103.8            |
| November 2012         | 3.2                 | 0.30%                   | 263                        | 841.7              |
| December 2012         | 0.3                 | 0.03%                   | 249                        | 89.5               |
| July 19, 2013         | 10.0                | 0.89%                   | 270                        | 2,728.0            |
| July 30, 2013         | 8.3                 | 0.74%                   | 291                        | 3,207.0            |

\* Inclusive of transaction costs.

As at September 30, 2013, Beacon effectively owns 563 million Meralco common shares representing approximately 49.96% beneficial ownership in Meralco with a carrying value of Php121,644 million and market value of Php161,047 million based on quoted price of approximately Php286 per share. As at December 31, 2012, Beacon effectively owned 545 million Meralco common shares representing approximately 48% beneficial ownership in Meralco with a carrying value of Php113,940 million and market value of Php141,971 million based on quoted price of Php261 per share. As at January 1, 2012, Beacon beneficially owned 511.2 million Meralco common shares representing approximately 48% beneficial ownership in Meralco with a carrying approximately 45.4% beneficial ownership in Meralco with a carrying approximately 45.4% beneficial ownership in Meralco with a carrying value of Php126,379 million based on quoted price of Php247 per share.

#### Beacon Financing

On March 22, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation, or FMIC, and PNB Capital and Investment Corporation, or PNB Capital, as joint lead arrangers and various local financial institutions as noteholders. The initial drawdown of Php16,200 million (Php16,031 million, net of debt issuance cost of Php168.5 million) under this notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option in March 2010. In May 2011, the remaining Php1,800 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to nil, Php17,441 million and Php17,835 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on March 27, 2013.

On May 24, 2011, Beacon entered into an Php11,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The amount drawn under this facility as at December 31, 2011 amounting to Php4,000 million was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The remaining Php7,000 million was subsequently drawn on July 9, 2012 and used for the payment of the final tranche of the deferred purchase made in May 2011. The outstanding balance of the facility amounted to Php10,871 million, Php10,856 million and Php3,897 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 9, 2011, Beacon entered into a Php5,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The full amount was drawn on February 1, 2012 and was used to finance the acquisition of the additional 30 million Meralco common stock from FPUC. The outstanding balance of the facility amounted to Php5,000 million as at December 31, 2012. The loan was prepaid in full on August 1, 2013.

On February 6, 2013, Beacon entered into a Php17,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php18,000 million ten-year corporate notes facility under a Facility Agreement dated March 22, 2010. The loan facility is divided into two tranches with the first tranche amounting to Php2,285 million (the "Tranche A") and the second tranche amounting to Php14,715 million (the "Tranche B").

Both tranches have a term of ten years with semi-annual interest and principal payments starting May 27, 2013 with final repayment on March 27, 2023. The Tranche A bears a fixed interest rate based on the tenyear PDST-F plus a spread, subject to a floor rate. The Tranche B bears a fixed interest rate for the first five years from the Drawdown Date based on the five-year PDST-F plus a spread, subject to a floor rate. For the next five years, the fixed interest rate for Tranche B will be repriced based on the five-year PDST-F on the Business Day immediately preceding the Repricing Date plus a spread, provided that such interest rate shall not be lower than the applicable interest rate for the first five years. The outstanding balance of the facility amounted to Php16,777 million as at September 30, 2013. On May 27, 2013, Beacon entered into a Forward Starting Interest Rate Swap, or Forward Starting IRS, to hedge the interest repricing risk on the outstanding balance of the Tranche B (Php14,715 million) by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e., benchmark rate and fixing date). The hedge is expected to be highly effective and such as Beacon designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon's other comprehensive income (loss) reserve account.

On July 29, 2013, Beacon entered into a Php9,000 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The proceeds were used to refinance the Php5,000 million ten-year corporate notes facility under a Facility Agreement dated November 9, 2011 and to partially finance the acquisition of the additional 18.3 million Meralco common shares. This facility was fully drawn on August 1, 2013 with semi-annual interest and principal payments starting July 31, 2013 with final repayment on July 31, 2023. The loan facility is divided into two tranches with the first tranche amounting to Php2,950 million (the "Tranche A") and the second tranche amounting to Php6,050 million (the "Tranche B"). The outstanding balance of the facility amounted to Php8,884 million as at September 30, 2013.

On August 13, 2013, Beacon availed of two short-term notes from local banks, each with a principal sum of Php200 million. Both notes are payable in full not later than November 13, 2013 (then maturity date) and bear interest at a fixed rate equivalent to the higher of 4.5% per annum and the Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Agreement Rate prevailing on the interest setting date plus 1%.

The above facilities were secured by a pledge over the Meralco shares and were not guaranteed by PLDT. Also, the above facilities were not included in our consolidated long-term debt.

# Investment of SeMI in MPS

In June 2010, SeMI and MasterCard Asia/Pacific Pte. Ltd., or MasterCard Asia, entered into a JVA under which the parties agreed to form MPS. The joint venture will develop, provide and market certain mobile payment services among other activities as stipulated in the agreement. MPS was incorporated in Singapore on June 4, 2010 and is 40% and 60% owned by SeMI and MasterCard Asia, respectively. On November 9, 2010, SeMI contributed US\$2.4 million representing 40% ownership in MPS.

On November 21, 2011, the Board of Directors of MPS approved the allotment and issuance of additional 5 million shares for US\$5 million and 3 million shares for US\$3 million to MasterCard Asia and SeMI, respectively. On April 25, 2012, SeMI remitted the amount of US\$2 million representing the 60% payment for the additional shares allotted to SeMI. On August 23, 2012, the balance of US\$1 million representing the 40% of the remaining additional shares was paid.

On March 26, 2012, SeMI entered into a licensing agreement with MasterCard Asia to accept and process MasterCard Asia's debit and credit card transactions of accredited merchants. SeMI became the first non-bank institution in the country to be granted an acquiring license by MasterCard Asia.

The carrying values of SeMI's investment in MPS amounted to nil, Php54 million and nil as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

#### Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% equity interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, PLDT Global and HGC agreed to share equally the profit or loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholdings in PLDT Italy to HGC.

The amount of funding contributed by each partner to the joint venture is Euro 3.9 million, or a total of Euro 7.8 million each as at September 30, 2013, December 31, 2012 and January 1, 2012. PLDT Global has made a full impairment provision on its investment to PLDT Italy as at September 30, 2013, December 31, 2012 and January 1, 2012.

# Summarized Financial Information of Joint Ventures

The following table presents our share in the summarized financial information of our investments in joint ventures as at September 30, 2013, December 31, 2012 and January 1, 2012 and for the nine months ended September 30, 2013 and 2012:

|                                   | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|-----------------------------------|-----------------------|----------------------|-------------------|
|                                   | (Unaudited)           | (Aud                 | ited)             |
|                                   |                       | (in million pesos)   |                   |
| Statements of Financial Position: |                       |                      |                   |
| Noncurrent assets                 | 60,822                | 56,970               | 51,985            |
| Current assets                    | 1,280                 | 1,158                | 822               |
| Equity                            | 42,615                | 40,507               | 36,210            |
| Noncurrent liabilities            | 18,021                | 16,448               | 10,866            |
| Current liabilities               | 1,466                 | 1,173                | 5,731             |
|                                   |                       |                      |                   |
|                                   | _                     | 2013                 | 2012              |

|                    | (Unaud      | dited) |
|--------------------|-------------|--------|
|                    | (in million | pesos) |
| Income Statements: |             |        |
| Revenues           | 3,202       | 2,964  |
| Expenses           | 108         | 45     |
| Other expenses     | 973         | 968    |
| Net income         | 2,121       | 1,951  |

The above information as at September 30, 2013, December 31, 2012 and January 1, 2012 and for the nine months ended September 30, 2013 and 2012 includes the financial information of Beacon as shown below:

|                                   | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|-----------------------------------|-----------------------|----------------------|-------------------|
|                                   | (Unaudited)           | (Audi                | ted)              |
|                                   |                       | (in million pesos)   |                   |
| Statements of Financial Position: |                       |                      |                   |
| Noncurrent assets                 | 121,644               | 113,940              | 104,143           |
| Current assets                    | 2,468                 | 2,149                | 1,528             |
| Equity                            | 85,267                | 80,928               | 72,402            |
| Noncurrent liabilities            | 36,043                | 32,896               | 21,225            |
| Current liabilities               | 2,802                 | 2,265                | 12,044            |
| Additional Information:           |                       |                      |                   |
| Cash and cash equivalents         | 2,464                 | 2,146                | 1,472             |
| Current financial liabilities*    | 1,187                 | 374                  | 10,601            |
| Noncurrent financial liabilities* | 35,745                | 32,896               | 21,225            |

Excluding trade, other payables and provisions.

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|                         | 2013        | 2012   |
|-------------------------|-------------|--------|
|                         | (Unaudited) |        |
|                         | (in million | pesos) |
| Income Statements:      |             |        |
| Revenues                | 6,339       | 5,831  |
| Expenses                | 162         | 12     |
| Other expenses          | 1,793       | 1,801  |
| Net income              | 4,384       | 4,018  |
| Additional Information: |             |        |
| Dividends received      | 405         | 718    |
| Interest income         | 24          | 71     |
| Interest expense        | 1,774       | 1,918  |

We have no outstanding contingent liabilities or capital commitments with our joint ventures as at September 30, 2013, December 31, 2012 and January 1, 2012.

# 11. Investment in Debt Securities and Other Long-term Investments

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--|-----------------------|----------------------|--------------------|
|  | (Unaudited)           | (Audi                | ted)               |
|  |                       | (in million pesos)   |                    |
| PSALM Bond   | 323                   | _                    | -                  |
| Security Bank Corporation, or Security Bank, Time Deposits | 305                   | 205                  | -                  |
| GT Capital Bond  | 150                   | -                    | -                  |
| Home Guaranty Corporation, or HGC, Zero Coupon Bond        | 91                    | -                    | -                  |
| Rizal Commercial Banking Corporation, or RCBC, Note        | -                     | 150                  | 150                |
| National Power Corporation, or NAPOCOR, Zero Coupon Bond   | -                     | -                    | 358                |
|  | 869                   | 355                  | 508                |
| Less current portion (Note 27)                             | 91                    | 150                  | 358                |
| Noncurrent portion (Note 27)                               | 778                   | 205                  | 150                |

#### PSALM Bond

In April 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php200 million maturing on April 22, 2017 with yield-to-maturity at 4.25% gross. The bond has a gross coupon of 7.25% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is accreted using the effective interest rate method. Interest income recognized on the PSALM Bond amounted to Php5.8 million for the nine months ended September 30, 2013.

In August 2013, Smart purchased, at a premium, a PSALM Bond with face value of Php100 million maturing on April 22, 2015 with yield-to-maturity at 3.25% gross. The bond has a gross coupon of 6.875% payable on a quarterly basis, and was recognized as held-to-maturity investment. Premium is accreted using the effective interest rate method. Interest income recognized on the PSALM Bond amounted to Php974 thousand for the nine months ended September 30, 2013.

#### Security Bank Time Deposits

In October 2012, PLDT and Smart invested US\$2.5 million each in a five-year time deposit with Security Bank maturing on October 11, 2017 at a gross coupon rate of 4%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposit amounted to US\$140 thousand, or Php6 million, for the nine months ended September 30, 2013 and US\$42 thousand, or Php2 million, for the year ended December 31, 2012.

In May 2013, PLDT invested US\$2.0 million in a five-year time deposit with Security Bank maturing on May 31, 2018 at a gross coupon rate of 3.5%. These long-term fixed rate time deposits pay interest on a monthly basis or an estimate of 30 days. The deposits may be terminated prior to maturity at the applicable pretermination rates. Interest income (net of withholding tax) recognized on the time deposit amounted to US\$22 thousand, or Php1 million, for the nine months ended September 30, 2013.

#### GT Capital Bond

In February 2013, Smart purchased at par a seven-year GT Capital Bond with a face value of Php150 million, maturing on February 27, 2020. The bond has a gross coupon of 4.8371% payable on a quarterly basis, and was recognized as held-to-maturity investment. Interest income, net of withholding tax, recognized on the GT Capital Bond amounted to Php3.5 million for the nine months ended September 30, 2013.

## HGC Zero Coupon Bond

In May 2013, Smart purchased, at a discount, a Home Guaranty Corporation Zero Coupon Bond, or HGC Bond, with a face value of Php91.5 million at a yield-to-maturity of 2.50% gross. This investment will mature on November 24, 2013 and was booked as held-to-maturity investment. The HGC Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the HGC Bond amounted to Php708 thousand for the nine months ended September 30, 2013.

# RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC early redeemed its Tier 2 Note with face value of Php150 million and interest payment of Php2 million on February 22, 2013 pursuant to the exercise of Redemption at the Option of the Issuer and as approved by the Bangko Sentral ng Pilipinas. Interest income recognized on the RCBC Note amounted to Php1.2 million and Php6 million for the nine months ended September 30, 2013 and 2012, respectively.

# NAPOCOR Zero Coupon Bond

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond, or NAPOCOR Bond, with a face value of Php380 million, that matured on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond was carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to nil and Php19 million for the nine months ended September 30, 2013 and 2012, respectively.

#### 12. Investment Properties

Changes in investment properties account for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|   | 2013        | 2012      |
|---|-------------|-----------|
|   | (Unaudited) | (Audited) |
|   | (in million | pesos)    |
| Balance at beginning of the period  | 712         | 1,115     |
| Net gains from fair value adjustments charged to profit or loss <sup>(1)</sup> (Note 3) | -           | 21        |
| Disposals   | -           | (135)     |
| Transfers to property, plant and equipment - net (Note 9)                               | -           | (289)     |
| Balance at end of the period (Note 3)   | 712         | 712       |

<sup>(1)</sup> Presented as part of "other income" in our consolidated income statement.

Investment properties, which consist of land and building, are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation for land was based on an open market value, supported by a market evidence in which such assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of valuation, while the valuation for building was based on the depreciated replacement cost approach. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses that do not generate rental income related to investment properties amounted to Php42 million and Php43 million for the nine months ended September 30, 2013 and 2012, respectively.

While fair value of investment properties was not determine as at September 30, 2013, we believe that there were no conditions present in 2013 that would significantly change the fair value from that determined as at December 31, 2012.

The above investment properties were categorized under Level 2 fair value hierarchy. There were no transfers between Level 2 and Level 3 fair value hierarchy.

# 13. Business Combinations

#### 2012 Acquisition

#### ePLDT's Acquisition of IPCDSI

On October 12, 2012, ePLDT, IPVI and IEI entered into a Sale and Purchase Agreement whereby IPVI and IEI sold its 100% ownership in IPCDSI to ePLDT for a purchase price of Php728 million and Php72 million shareholder advances. The purchase price is subject to adjustments as enumerated herein: (a) receivables of Php13 million as specified in the schedule attached to the Sale and Purchase Agreement, provided that IPCDSI shall have collected such receivables, in whole or in part, within six months from October 12, 2012, or Closing Date; and (b) write-off of Philippine peso and U.S. dollar deposits of IPDCI, former parent company of IPCDSI, in Export and Industry Bank, Inc. amounting to Php8 million.

ePLDT shall pay the purchase price as follows: (a) initial payment of Php629 million on Closing Date; (b) retention amount of Php50 million to be remitted by ePLDT on Claim Period Termination Date (first business day after six months from Closing Date) subject to conditions as set forth in the Sale and Purchase Agreement, among which is the claim for deduction from the retention amount due to establishment of undisclosed liabilities or uncollected receivables; and (c) escrow amount of Php100 million deposited with an escrow agent designed by both parties on Closing Date and will be released to relevant party subject to the amount of EBITDA valuation. An additional consideration may be paid by ePLDT if the EBITDA valuation exceeds Php140 million. ePLDT determined that IPCDSI did not exceed Php140 million; thus, ePLDT does not have any contingent liability as at December 31, 2012.

The purchase price, after the adjustments on retention payable and escrow amount, amounted to Php693 million.

IPCDSI owns and operates two internet data centers in the country and provides enterprises with managed data services and cloud-based business solutions across a wide range of industries including IT solutions providers, gaming companies, e-learning and healthcare. IPCDSI is the country's first and only Salesforce.com Cloud Alliance Partner providing Salesforce CRM licenses and consulting services to businesses. In addition, IPCDSI is also the country's premier Google Enterprise Partner, allowing local organizations to adopt a cloud computing mindset and to ThinkOutCloud<sup>™</sup>. Our investment in IPCDSI allows us to complete our multi-tiered data center product suite and expand our cloud solutions business. See Note 2 – Summary of Significant Accounting Policies – ePLDT's Acquisition of IPCDSI.

The purchase price consideration has been allocated to the identifiable assets and liabilities on the basis of fair values at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

|  | Previous Carrying<br>Values | Values<br>Recognized of<br>Acquisition |
|--|-----------------------------|--|
| <b>.</b> .   | (in millior                 | n pesos)                               |
| Assets:  | 267                         | 267                                    |
| Property, plant and equipment (Note 9)                   | 207                         |  |
| Intangible assets (Note 14)<br>Other noncurrent assets   |                             | 2                                      |
|  | 14                          | 14                                     |
| Cash and cash equivalents<br>Trade and other receivables |                             |  |
|  | 159                         | 159                                    |
| Prepayments and other current assets                     | 30                          | 30                                     |
| 1.1.1011   | 477                         | 479                                    |
| Liabilities:   | 00                          | 00                                     |
| Long-term debt   | 26                          | 26                                     |
| Obligations under finance lease                          | 18                          | 18                                     |
| Other noncurrent liabilities                             | 43                          | 43                                     |
| Accounts payable   | 212                         | 212                                    |
| Accrued expenses and other current liabilities           | 20                          | 20                                     |
|  | 319                         | 319                                    |
| Total identifiable net assets acquired                   | 158                         | 160                                    |
| Goodwill from the acquisition (Note 14)                  | _                           | 533                                    |
| Purchase consideration transferred                       | 158                         | 693                                    |
| Cash flows from investing activity:                      |                             |  |
| Net cash acquired with subsidiary                        |                             | 14                                     |
| Cash paid  |                             | (693)                                  |
| Purchase of subsidiary – net of cash acquired            |                             | (679)                                  |

The net assets acquired at the date of acquisition were based on a final assessment of fair value.

The fair value and gross amount of trade and other receivables amounted to Php159 million and Php196 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php37 million.

The goodwill of Php533 million pertains to the fair value of IPCDSI's data center business, which includes operations of data centers, managed data services and cloud-based business solutions across a wide range of industries. The intangible assets of Php2 million pertain to the fair value of IPCDSI's customer list and licenses.

Our consolidated revenues and net income would have increased by Php228 million and Php24 million, respectively, for the year ended December 31, 2012 had the acquisition of IPCDSI actually taken place on January 1, 2012. Total revenues and net income of IPCDSI included in our consolidated income statement from October 12 to December 31, 2012 amounted to Php206 million and Php32 million, respectively.

# 14. Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|                                       |                  | Intangible A | Assets with D    | efinite Life |        | Total<br>Intangible             | Intangible<br>Assets with<br>Indefinite<br>Life |                               |          | Total<br>Goodwill           |
|---------------------------------------|------------------|--------------|------------------|--------------|--------|---------------------------------|---|-------------------------------|----------|-----------------------------|
| -                                     | Customer<br>List | Franchise    | Licenses         | Spectrum     | Others | Assets with<br>Definite<br>Life | Trademark                                       | Total<br>Intangible<br>Assets | Goodwill | and<br>Intangible<br>Assets |
|                                       | 2.01             | 1 runomoo    | 210011000        | opeedan      |        | on pesos)                       | maaoman   | 7100010                       | accan    | 7100010                     |
| September 30, 2013 (Unaudited)        |                  |              |                  |              | (      | ,                               |   |                               |          |                             |
| Costs:                                |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Balance at beginning of               |                  |              |                  |              |        |                                 |   |                               |          |                             |
| the period                            | 4,726            | 3,016        | 135              | 1,205        | 1,177  | 10,259                          | 4,505   | 14,764                        | 62,939   | 77,703                      |
| Additions during the perod            | -                | -            | 801              | -            | -      | 801                             | -   | 801                           | -        | 801                         |
| Translation and other adjustments     | -                | -            | -                | -            | 14     | 14                              | -   | 14                            | -        | 14                          |
| Business combinations (Note 13)       | -                | -            | -                | -            | -      | -                               | -   | -                             | (41)     | (41)                        |
| Balance at end of the period          | 4,726            | 3,016        | 936              | 1,205        | 1,191  | 11,074                          | 4,505   | 15,579                        | 62,898   | 78,477                      |
| Accumulated amortization and impairs  | nont:            |              |                  |              |        |                                 |   |                               |          |                             |
| Balance at beginning of               |                  |              |                  |              |        |                                 |   |                               |          |                             |
| the period                            | 722              | 217          | 62               | 669          | 1,084  | 2,754                           | -   | 2.754                         | 699      | 3.453                       |
| Amortization during the period        | 122              | 217          | 02               | 000          | 1,004  | 2,704                           |   | 2,104                         | 000      | 0,400                       |
| (Note 3)                              | 387              | 140          | 139              | 60           | 10     | 736                             | -   | 736                           | -        | 736                         |
| Translation and other adjustments     | _                | _            | _                | _            | 15     | 15                              | -   | 15                            | -        | 15                          |
| Balance at end of the period          | 1.109            | 357          | 201              | 729          | 1.109  | 3,505                           | -   | 3,505                         | 699      | 4,204                       |
| Net balance at end of the period      | .,               |              |                  |              | .,     | -,                              |   | -,                            |          | .,                          |
| (Note 3)                              | 3,617            | 2,659        | 735              | 476          | 82     | 7,569                           | 4,505   | 12,074                        | 62,199   | 74,273                      |
|                                       |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Estimated useful lives (in years)     | 1 – 9            | 16           | 1 – 18           | 15           | 1 – 10 | -                               | -   | -                             | -        | -                           |
| Remaining useful lives (in years)     | 1 – 7            | 14           | 1 – 9            | 6            | 2 – 6  | -                               | -   | -                             | -        | -                           |
| December 31, 2012 (Audited)           |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Costs:                                |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Balance at beginning of the year      | 6,231            | 3.016        | 120              | 1,205        | 1,211  | 11,783                          | 4,505   | 16,288                        | 74,322   | 90.610                      |
| Business combinations (Note 13)       | 1                | -            | 1                | -            |        | 2                               | .,000   | 2                             | 574      | 576                         |
| Noncontrolling interest               |                  |              |                  |              |        | -                               |   | _                             |          |                             |
| adjustments (Note 13)                 | -                | -            | -                | -            | -      | -                               | -   | -                             | (919)    | (919)                       |
| Discontinued operations (Note 2)      | (1.691)          | -            | -                | -            | (20)   | (1,711)                         | -   | (1,711)                       | (10,097) | (11,808)                    |
| Translation and other adjustments     | 185              | -            | 14               | -            | (14)   | 185                             | -   | 185                           | (941)    | (756)                       |
| Balance at end of the year            | 4,726            | 3,016        | 135              | 1,205        | 1,177  | 10,259                          | 4,505   | 14,764                        | 62,939   | 77,703                      |
|                                       |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Accumulated amortization and impairm  |                  |              |                  |              |        |                                 |   |                               |          |                             |
| Balance at beginning of the year      | 1,360            | -            | 41               | 589          | 1,095  | 3,085                           | -   | 3,085                         | 4,222    | 7,307                       |
| Amortization during the year          | 778              | 217          | 7                | 80           | 19     | 1,101                           | -   | 1,101                         | -        | 1,101                       |
| Discontinued operations (Note 2)      | (1,338)          | -            | -                | -            | (19)   | (1,357)                         | -   | (1,357)                       | (3,418)  | (4,775)                     |
| Translation and other adjustments     | (78)             | -            | 14               | -            | (11)   | (75)                            | -   | (75)                          | (105)    | (180)                       |
| Balance at end of the year            | 722              | 217          | 62               | 669          | 1,084  | 2,754                           | -   | 2,754                         | 699      | 3,453                       |
| Net balance at end of the year        |                  |              |                  |              |        |                                 |   |                               |          |                             |
| (Note 3)                              | 4,004            | 2,799        | 73               | 536          | 93     | 7,505                           | 4,505   | 12,010                        | 62,240   | 74,250                      |
| Entre de la confettione (in conserve) |                  | 10           | 4 40             | 15           |        |                                 |   |                               |          |                             |
| Estimated useful lives (in years)     | 1-9              | 16           | 1 – 18<br>2 – 10 | 15<br>7      | 1 – 10 | -                               | -   | -                             | -        | -                           |
| Remaining useful lives (in years)     | 1 – 8            | 15           | 2 - 10           | /            | 2 – 7  | -                               | -   | -                             | -        | -                           |

The goodwill and intangible assets of our reportable segments as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | Sept     | September 30, 2013 |        | De       | December 31, 2012 |           | January 1, 2012 |            |       |        |  |
|--|----------|--------------------|--------|----------|-------------------|-----------|-----------------|------------|-------|--------|--|
|  |          | (Unaudited)        |        |          | (Audited)         |           |                 | (Audited)  |       |        |  |
|  | Wireless | Fixed Line         | Total  | Wireless | Fixed Line        | Total     | Wireless        | Fixed Line | BPO   | Total  |  |
|  |          |                    |        |          | (in milli         | on pesos) |                 |            |       |        |  |
| Trademark  | 4,505    | -                  | 4,505  | 4,505    |                   | 4,505     | 4,505           | -          | -     | 4,505  |  |
| Customer list                                    | 3,617    | -                  | 3,617  | 4,003    | 1                 | 4,004     | 4,605           | -          | 266   | 4,871  |  |
| Franchise  | 2,659    | -                  | 2,659  | 2,799    | -                 | 2,799     | 3,016           | -          | -     | 3,016  |  |
| Licenses   | 734      | 1                  | 735    | 73       | -                 | 73        | 79              | -          | -     | 79     |  |
| Spectrum   | 476      | -                  | 476    | 536      | -                 | 536       | 616             | -          | -     | 616    |  |
| Others   | 82       | -                  | 82     | 93       | -                 | 93        | 108             | -          | 8     | 116    |  |
| Total intangible assets                          | 12,073   | 1                  | 12,074 | 12,009   | 1                 | 12,010    | 12,929          | -          | 274   | 13,203 |  |
| Goodwill   | 57,322   | 4,877              | 62,199 | 57,322   | 4,918             | 62,240    | 57,140          | 5,263      | 7,697 | 70,100 |  |
| Total intangible assets<br>and goodwill (Note 3) | 69,395   | 4,878              | 74,273 | 69,331   | 4,919             | 74,250    | 70,069          | 5,263      | 7,971 | 83,303 |  |

# Intangible Assets

In April 2013, Smart entered into a three-year licensing agreement with MCA Music, Inc., an affiliate of the Universal Music Group, the world's largest music company with wholly-owned record operations in 77 countries. Smart recognized intangible assets of Php600 million for the license contents and marketing partnership in the Philippines, while amortization amounted to Php100 million for the nine months ended September 30, 2013.

In July 2013, Smart entered into an 18-month licensing agreement with lvory Music and Video, Inc., a domestic corporation and one of the major labels in the Philippine music industry. Smart recognized intangible assets of Php201 million for the license contents and marketing partnership, while amortization amounted to Php33 million for the nine months ended September 30, 2013.

There were no impairment indicators identified as at September 30, 2013. Annual impairment testing will be performed at year-end.

The consolidated future amortization of intangible assets as at September 30, 2013 is as follows:

| Year  | (in million pesos) |
|---|--------------------|
| 2013(1)                                       | 283                |
| 2014  | 1,133              |
| 2015  | 998                |
| 2016  | 848                |
| 2017 and onwards                              | 4,307              |
| Intangible assets with definite life (Note 3) | 7,569              |

<sup>1)</sup> October 1, 2013 through December 31, 2013.

### Impairment Testing of Goodwill and Intangible Assets with Indefinite Life

The organizational structure of PLDT and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at September 30, 2013, the PLDT Group's goodwill comprised of goodwill resulting from ePLDT's acquisition of IPCDSI in 2012, PLDT's acquisition of Digitel in 2011, ePLDT's acquisition of ePDS in 2011, Smart's acquisition of PDSI and Chikka in 2009, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access Corporation, or Airborne Access, from ePLDT in 2008 and Smart's acquisition of SBI in 2004. The test for recoverability of PLDT's and Smart's goodwill was applied to the fixed line and wireless asset group, respectively, which represent the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among the companies within the Group, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common used network/platform. In the case of CURE, it provided cellular services to its subscribers using Smart's 2G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone, as well as the Worldwide Interoperability for Microwave Access technology of PDSI. The same is true for Sun, wherein Smart 2G/3G network, cellular base stations and fiber optic backbone are shared for areas where Sun has limited connectivity and facilities. On the other hand, PLDT has the largest fixed line network in the Philippines covering 73% of the total cities within the country. PLDT's transport facilities are installed nationwide to cover both domestic and international IP backbone to route and transmit IP traffic generated by the customers. In the same manner, PLDT has the most Internet Gateway facilities which is composed of high capacity IP routers and switches that serve as the main gateway of the Philippines to the Internet connecting to the World Wide Web. With PLDT's network coverage, other fixed line subsidiaries shared the same facilities to leverage on a Group perspective.

Given the significant common use of network facilities among fixed and wireless companies within the Group, Management deems that the wireless and fixed line operating segment are the lowest CGU to which goodwill is to be allocated and which are expected to benefit from the synergies.

The recoverable amount of the wireless and fixed line segments had been determined using the value-in-use approach calculated using cash flow projections based on the financial budgets approved by the Board of Directors, covering a three-year period from 2013 to 2015. The pre-tax discount rate applied to cash flow projections is 12% for the wireless and fixed line segments. Cash flows beyond the three-year period are determined using a 2.5% growth rate for the wireless and fixed line segments, which is the same as the long-term average growth rate for the telecommunications industry.

Based on the assessment of the value-in-use of the wireless and fixed line segment, the recoverable amount exceeded the carrying amount of the CGUs, which as a result, no impairment was recognized as at December 31, 2012 in relation to goodwill resulting from the acquisition of IPCDSI, Digitel, ePDS, Chikka, CURE, Airborne Access, PDSI and SBI. Annual impairment testing will be performed at year-end.

# 15. Cash and Cash Equivalents

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|                                      | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--------------------------------------|-----------------------|----------------------|--------------------|
|                                      | (Unaudited)           | (Audi                | ted)               |
|                                      |                       | (in million pesos)   |                    |
| Cash on hand and in banks (Note 27)  | 4,430                 | 5,611                | 4,637              |
| Temporary cash investments (Note 27) | 25,349                | 31,550               | 41,420             |
|                                      | 29,779                | 37,161               | 46,057             |

Cash in banks earn interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing temporary cash investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 27 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php633 million and Php949 million for the nine months ended September 30, 2013 and 2012, respectively.

# 16. Trade and Other Receivables

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of receivables from:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |  |
|--|-----------------------|----------------------|--------------------|--|
|  | (Unaudited)           | (Audited)            |                    |  |
|  |                       | (in million pesos)   |                    |  |
| Retail subscribers (Note 27)                             | 12,125                | 10,568               | 11,302             |  |
| Corporate subscribers (Notes 24 and 27)                  | 8,220                 | 8,100                | 9,200              |  |
| Foreign administrations (Note 27)                        | 5,763                 | 4,960                | 4,961              |  |
| Domestic carriers (Notes 24 and 27)                      | 1,425                 | 1,707                | 1,323              |  |
| Dealers, agents and others (Notes 24 and 27)             | 3,743                 | 4,334                | 4,231              |  |
|  | 31,276                | 29,669               | 31,017             |  |
| Less allowance for doubtful accounts (Notes 3, 5 and 27) | 14,468                | 13,290               | 14,772             |  |
|  | 16,808                | 16,379               | 16,245             |  |

Receivables from foreign administrations and domestic carriers represent receivables based on interconnection agreements with other telecommunications carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

Receivables from dealers, agents and others consist mainly of receivables from credit card companies, dealers and distributors having collection arrangements with the Group.

Trade receivables are non interest-bearing and are generally on terms of 30 to 180 days.

For terms and conditions relating to related party receivables, see Note 24 - Related Party Transactions.

See Note 24 – Related Party Transactions – Terms and Conditions of Transactions with Related Parties for the summary of transactions with related parties and Note 27 – Financial Assets and Liabilities – Credit Risk on credit risk of trade receivables to understand how we manage and measure credit quality of trade receivables that are neither past due nor impaired.

Changes in the allowance for doubtful accounts for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|   | Total                    | Retail<br>Subscribers            | Corporate<br>Subscribers     | Foreign<br>Administrations | Domestic<br>Carriers | Dealers,<br>Agents an<br>Others |
|---|--------------------------|----------------------------------|------------------------------|----------------------------|----------------------|---------------------------------|
|   |                          |                                  | (in mi                       | llion pesos)               |                      |                                 |
| September 30, 2013 (Unaudited)<br>Balance at beginning of the period<br>Provisions (Notes 2, 3, 4 and 5)<br>Translation and other adjustments<br>Write-offs | 13,290<br>1,957<br>156   | 6,489<br>1,380<br>(180)<br>(666) | 6,137<br>497<br>342<br>(261) | 99<br>5<br>14              | 106<br>14<br>(20)    | 459<br>61<br>–                  |
| Balance at end of the period  | (935)<br>14,468          | 7,023                            | 6,715                        | 118                        | (7)<br>93            | (1)<br>519                      |
| Individual impairment<br>Collective impairment  | 8,682<br>5,786<br>14,468 | 2,018<br>5,005<br>7,023          | 6,060<br>655<br>6,715        | 118<br><br>118             | 93<br><br>93         | 393<br>126<br>519               |
| Gross amount of receivables<br>individually impaired, before<br>deducting any impairment<br>allowance   | 8,682                    | 2,018                            | 6,060                        | 118                        | 93                   | 393                             |
|   |                          |                                  |                              |                            |                      |                                 |
| December 31, 2012 (Audited)<br>Balance at beginning of the year<br>Provisions   | 14,772<br>2,178          | 7,264<br>1,404                   | 6,492<br>675                 | 199<br>6                   | 111<br>7             | 706<br>86                       |
| Business combinations and others<br>(Note 13)   | 36                       | -                                | 36                           | -                          | -                    | -                               |
| Discontinued operations<br>Write-offs<br>Translation and other adjustments  | (118)<br>(3,564)<br>(14) | (2)<br>(2,700)<br>523            | (87)<br>(531)<br>(448)       | -<br>(95)<br>(11)          | -<br>(12)            | (29)<br>(238)<br>(66)           |
| Balance at end of the year  | 13,290                   | 6,489                            | 6,137                        | 99                         | 106                  | 459                             |
| Individual impairment<br>Collective impairment  | 8,705<br>4,585           | 2,653<br>3,836                   | 5,514<br>623                 | 99<br>-                    | 106                  | 333<br>126                      |
|   | 13,290                   | 6,489                            | 6,137                        | 99                         | 106                  | 459                             |
| Gross amount of receivables<br>individually impaired, before<br>deducting any impairment  | 0 705                    | 0.050                            |                              |                            | 100                  | 005                             |
| allowance   | 8,705                    | 2,653                            | 5,514                        | 99                         | 106                  | 333                             |

# 17. Inventories and Supplies

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|   | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|---|-----------------------|----------------------|-------------------|
|   | (Unaudited)           | (Audi                | ted)              |
|   |                       | (in million pesos)   |                   |
| Terminal and cellular phone units:                                    |                       |                      |                   |
| At net realizable value   | 2,223                 | 1,605                | 1,349             |
| At cost   | 2,632                 | 1,942                | 1,728             |
| Spare parts and supplies:   |                       |                      |                   |
| At net realizable value   | 165                   | 1,372                | 1,606             |
| At cost   | 620                   | 1,985                | 2,256             |
| Others:   |                       |                      |                   |
| At net realizable value   | 481                   | 490                  | 872               |
| At cost   | 523                   | 494                  | 875               |
| Total inventories and supplies at the lower of cost or net realizable |                       |                      |                   |
| value (Notes 3, 4 and 5)  | 2,869                 | 3.467                | 3.827             |

The cost of inventories and supplies recognized as expense for the nine months ended September 30, 2013 and 2012 are as follows:

|   | 2013               | 2012   |  |
|---|--------------------|--------|--|
|   | (Unauc             | lited) |  |
|   | (in million pesos) |        |  |
| Cost of sales   | 8,096              | 5,872  |  |
| Repairs and maintenance                                   | 241                | 339    |  |
| Write-down of inventories and supplies (Notes 3, 4 and 5) | 163                | 216    |  |
|   | 8,500              | 6,427  |  |

# 18. Prepayments

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--|-----------------------|----------------------|--------------------|
|  | (Unaudited)           | (As Adjusted         | d – Note 2)        |
|  |                       | (in million pesos)   |                    |
| Prepaid taxes (Note 5)                 | 6,097                 | 6,340                | 8,219              |
| Prepaid benefit costs (Notes 3 and 25) | 2,897                 | 1,471                | 8,482              |
| Prepaid fees and licenses              | 1,222                 | 318                  | 13                 |
| Prepaid selling and promotions         | 1,078                 | 902                  | 907                |
| Prepaid rent – net (Note 3)            | 308                   | 246                  | 137                |
| Prepaid insurance (Note 24)            | 71                    | 144                  | 156                |
| Other prepayments                      | 263                   | 223                  | 128                |
|  | 11,936                | 9,644                | 18,042             |
| Less current portion of prepayments    | 5,990                 | 5,144                | 6,345              |
| Noncurrent portion of prepayments      | 5,946                 | 4,500                | 11,697             |

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of fair value of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See Note 25 – Employee Benefits.

Agreement between PLDT and Smart with Associated Broadcasting Company Development Corporation, or TV5

In 2010, PLDT and Smart entered into advertising placement agreements with TV5, a subsidiary of MediaQuest, which is a wholly-owned investee company of PLDT Beneficial Trust Fund, or PLDT-BTF, for the airing and telecast of advertisements and commercials of PLDT and Smart on TV5's television network for a period of five years. The costs of telecast of each advertisement shall be applied and deducted from the placement amount only after the relevant advertisement or commercial is actually aired on TV5's television network. Total prepayment under the advertising placement agreements amounted to Php893 million each as at September 30, 2013, December 31, 2012 and January 1, 2012. See Note 24 – Related Party Transactions.

# 19. Equity

PLDT's number of shares of issued and outstanding capital stock as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|                                   | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |  |  |
|-----------------------------------|-----------------------|----------------------|--------------------|--|--|
|                                   | (Unaudited)           | (Audit               | -                  |  |  |
|                                   |                       | (in millions)        |                    |  |  |
| Authorized                        |                       |                      |                    |  |  |
| Non-Voting Serial Preferred Stock | 388                   | 808                  | 808                |  |  |
| Voting Preferred Stock            | 150                   | 150                  | -                  |  |  |
| Common Stock                      | 234                   | 234                  | 234                |  |  |
| Issued                            |                       |                      |                    |  |  |
| Non-Voting Serial Preferred Stock | 36                    | 36                   | 442                |  |  |
| Voting Preferred Stock            | 150                   | 150                  | -                  |  |  |
| Common Stock                      | 219                   | 219                  | 217                |  |  |
| Outstanding                       |                       |                      |                    |  |  |
| Non-Voting Serial Preferred Stock | 36                    | 36                   | 442                |  |  |
| Voting Preferred Stock            | 150                   | 150                  | -                  |  |  |
| Common Stock                      | 216                   | 216                  | 214                |  |  |
| Treasury Stock                    |                       |                      |                    |  |  |
| Common Stock                      | 3                     | 3                    | 3                  |  |  |

Changes in PLDT's capital account for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are as follows:

|  | Non-Voting Serial<br>Preferred Stock –<br>Php10 par<br>value per share |             | Voting<br>Preferred<br>Stock – Php1<br>par value<br>per share | _                           |                     |                             |          |
|--|--|-------------|---|-----------------------------|---------------------|-----------------------------|----------|
|  | Series<br>A to II  | IV          | Voting  | Total<br>Preferred<br>Stock |                     | Common Si<br>Php5 par value |          |
|  |  | Number of S | Shares  |                             | Amount              | Number of Shares            | Amount   |
| Authorized                                       | 88   | 300         | 150   | (in mi<br>538               | llions)<br>Php4,025 | 234                         | Php1,170 |
| Issued   |  |             |   |                             | ·                   |                             |          |
| Balances as at January 1, 2013                   | -  | 36          | 150   | 186                         | Php510              | 219                         | Php1,093 |
| Issuance   | -  | -           | -   | -                           | -                   | -                           | -        |
| Conversion                                       | -  | -           | -   | -                           | -                   | -                           | -        |
| Redemption                                       | -  | -           | -   | -                           | -                   | _                           | -        |
| Balances as at September 30, 2013<br>(Unaudited) | -  | 36          | 150   | 186                         | Php510              | 219                         | Php1,093 |
| Balances as at January 1, 2012                   | 406  | 36          | _   | 442                         | Php4,419            | 217                         | Php1,085 |
| Issuance   | _  | _           | 150   | 150                         | 150                 | 2                           | 8        |
| Conversion                                       | (3)  | -           | -   | (3)                         | (30)                | -                           | -        |
| Redemption                                       | (403)  | _           | -   | (403)                       | (4,029)             | -                           | -        |
| Balances as at December 31, 2012<br>(Audited)    | -  | 36          | 150   | 186                         | Php510              | 219                         | Php1,093 |

#### Preferred Stock

Non-Voting Serial Preferred Stocks

On January 26, 2010, the Board of Directors designated 100,000 shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock to be issued from January 1, 2010 to December 31, 2012, pursuant to the PLDT Subscriber Investment Plan, or SIP.

The Series HH and II 10% Cumulative Convertible Preferred Stock, or SIP shares, earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular Series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at September 30, 2013 was Php5.00 each per share. The number of shares of Common Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series HH and II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT any time one year after subscription at the actual amount paid for such stock, plus accrued dividends.

The Non-Voting Serial Preferred Stocks are non-voting, except as specifically provided by law, and are preferred as to liquidation.

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

# Voting Preferred Stock

On June 5, 2012, the Philippine SEC approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized Preferred Capital Stock into: 150 million shares of Voting Preferred Stock with a par value of Php1.00 each, and 807.5 million shares of Non-Voting Serial Preferred Stock with a par value of Php10.00 each, and other conforming amendments, or the Amendments. The shares of Voting Preferred Stock may be issued, owned, or transferred only to or by: (a) a citizen of the Philippines or a domestic partnership or association wholly-owned by citizens of the Philippines; (b) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock entitled to vote is owned and held by citizens of the Philippines; and (c) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee qualifies under paragraphs (a) and (b) above and at least 60% of the funds accrue to the benefit of citizens of the Philippines, or Qualified Owners. The holders of Voting Preferred Stock will have voting rights at any meeting of the stockholders of PLDT for the election of directors and for all other purposes, with one vote in respect of each share of Voting Preferred Stock. The Amendments were approved by the Board of Directors and stockholders of PLDT on July 5, 2011 and March 22, 2012, respectively.

On October 12, 2012, the Board of Directors, pursuant to the authority granted to it in the Seventh Article of PLDT's Articles of Incorporation, determined the following specific rights, terms and features of the Voting Preferred Stock: (a) entitled to receive cash dividends at the rate of 6.5% per annum, payable before any dividends are paid to the holders of Common Stock; (b) in the event of dissolution or liquidation or winding up of PLDT, holders will be entitled to be paid in full, or pro-rata insofar as the assets of PLDT will permit, the par value of such shares of Voting Preferred Stock and any accrued or unpaid dividends thereon before any distribution shall be made to the holders of shares of Common Stock; (c) redeemable at the option of PLDT; (d) not convertible to Common Stock or to any shares of stock of PLDT of any class; (e) voting rights at any meeting of the stockholders of PLDT for the election of directors and all other matters to be voted upon by the stockholders in any such meetings, with one vote in respect of each Voting Preferred Share; and (f) holders will have no pre-emptive right to subscribe for or purchase any shares of stock of any class, securities or warrants issued, sold or disposed by PLDT.

On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at September 30, 2013. See Note 1 – Corporate Information and Note 26 – Provisions and Contingencies – Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition.

# Redemption of Preferred Stock

On September 23, 2011, the Board of Directors approved the redemption, or the Redemption, of all outstanding shares of PLDT's Series A to FF 10% Cumulative Convertible Preferred Stock, or the SIP Preferred Shares, and all such shares were redeemed and retired effective on 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 Holders of SIP Preferred Shares, was fixed on October 10, 2011, or the Record Date. In accordance with the terms and conditions of the SIP Preferred Shares, the Holders of SIP Preferred Shares as of the Record Date are entitled to payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to the Redemption Date, or the Redemption Price.

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

On May 8, 2012, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series GG 10% Cumulative Convertible Preferred Stock and all such shares were redeemed and retired effective on August 30, 2012. The record date for purposes of determining the holders of the outstanding Series GG Shares subject to redemption, or Holders of Series GG Shares, was fixed on May 22, 2012. In accordance with the terms and conditions of the Series GG Shares, the Holders of the Series GG Shares as at May 22, 2012 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to August 30, 2012, or the Redemption Price of Series GG Shares.

PLDT has set aside Php247 thousand (the amount required to fund the redemption price for the Series GG Shares) in addition to Php63 thousand for unclaimed dividends on Series GG Shares, or a total amount of Php310 thousand, to fund the redemption price for the Series GG Shares, or the Redemption Trust Fund for Series GG Shares, which forms an integral part of the Redemption Trust Fund previously set aside in the trust account with RCBC, as Trustee, for the purpose of funding the payment of the Redemption Price of PLDT Series A to FF 10% Cumulative Convertible Preferred Stock.

As at January 19, 2012 and August 30, 2012, notwithstanding that any stock certificate representing the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock, respectively, were not surrendered for cancellation, the Series A to FF 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock and Series GG 10% Cumulative Convertible Preferred Stock were no longer deemed outstanding and the right of the holders of such shares to receive dividends thereon ceased to accrue and all rights with respect to such shares ceased and terminated, except only the right to receive the Redemption Price of such shares, but without interest thereon.

A total amount of Php333 million was withdrawn from the Trust Account, representing total payments on redemption as at September 30, 2013. The balance of the Trust Account of Php7,961 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 September 30, 2013. See Note 23 – Accrued Expenses and Other Current Liabilities and Note 27 – Financial Assets and Liabilities.

On January 29, 2013, the Board of Directors approved the redemption of all outstanding shares of PLDT's Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2007 effective on May 16, 2013. The record date for purpose of determining the holders of the outstanding Series HH shares issued in 2007 subject to redemption, or Holder of Series HH Shares issued in 2007, was fixed on February 14, 2013. In accordance with the terms and conditions of Series HH Shares issued in 2007, the Holders of Series HH Shares issued in 2007 as at February 14, 2013 are entitled to the payment of the redemption price in an amount equal to the par value of such shares, plus accrued and unpaid dividends thereon up to May 16, 2013, or the Redemption Price of Series HH Shares issued in 2007.

PLDT expects to similarly redeem the outstanding shares of Series HH 10% Cumulative Convertible Preferred Stock which were issued in 2008 and Series II 10% Cumulative Convertible Preferred Stock as and when they become eligible for redemption.

# Common Stock

The Board of Directors approved 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 in 2008. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholders value. This also reinforces initiatives that PLDT has already undertaken, such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our core EPS, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at September 30, 2013, December 31, 2012 and January 1, 2012.

On November 9, 2011, the PSE approved the listing of the additional 27.7 million common shares of PLDT, which were issued on October 26, 2011 at the issue price of Php2,500 per share, as consideration for the acquisition by PLDT of the Enterprise Assets of Digitel.

On January 27, 2012, a total of 1.61 million PLDT common shares were issued for settlement of the purchase price of 2,518 million common shares of Digitel tendered by the noncontrolling Digitel stockholders under the mandatory tender offer conducted by PLDT, and which opted to receive payment of the purchase price in the form of PLDT common shares.

## Decrease in Authorized Capital Stock

On April 23, 2013 and June 14, 2013, the Board of Directors and stockholders, respectively, approved the following actions: (1) decrease in PLDT's authorized capital stock from Php9,395 million divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 807.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php5,00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Stock of the par value of Php5.00 each, to Php5,195 million, divided into two classes consisting of: (a) Preferred Capital Stock sub-classified into: 150 million shares of Voting Preferred Stock of the par value of Php1.00 each and 387.5 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Non-Voting Serial Preferred Stock of the par value of Php10.00 each; and (b) 234 million shares of Common Capital Stock of the par value of Php5.00 each; and (c) corresponding amendments to the Seventh Article of the Articles of Incorporation of PLDT. On October 3, 2013, the Philippine SEC approved the decrease in authorized capital stock and amendments to the Articles of Incorporation of PLDT.

# Dividends Declared

Our dividends declared for the nine months ended September 30, 2013 and 2012 are detailed as follows:

# September 30, 2013 (Unaudited)

| _                            |                  | Date               |                    | An                     | Amount                 |  |  |
|------------------------------|------------------|--------------------|--------------------|------------------------|------------------------|--|--|
| Class                        | Approved         | Record             | Payable            | Per Share              | Total                  |  |  |
|                              |                  |                    |                    | (in million pesos, exc | ept per share amounts) |  |  |
| 10% Cumulative Convertible   |                  |                    |                    |                        |                        |  |  |
| Preferred Stock              |                  |                    |                    |                        |                        |  |  |
| Series HH                    | April 23, 2013   | May 9, 2013        | May 31, 2013       | 1.00                   | -                      |  |  |
| Series HH (final)            | April 23, 2013   | February 14, 2013  | May 16, 2013       | 0.0027/day             | -                      |  |  |
| Series II                    | April 23, 2013   | May 9, 2013        | May 31, 2013       | 1.00                   |                        |  |  |
| Cumulative Non-Convertible   |                  |                    |                    |                        |                        |  |  |
| Redeemable Preferred Stock   |                  |                    |                    |                        |                        |  |  |
| Series IV*                   | January 29, 2013 | February 28, 2013  | March 15, 2013     | -                      | 12                     |  |  |
|                              | May 7, 2013      | May 27, 2013       | June 15, 2013      | -                      | 13                     |  |  |
|                              | August 7, 2013   | August 23, 2013    | September 15, 2013 | -                      | 12                     |  |  |
|                              |                  |                    |                    |                        | 37                     |  |  |
| Voting Preferred Stock       | March 5, 2013    | March 20, 2013     | April 15, 2013     | -                      | 3                      |  |  |
| C C                          | June 14, 2013    | June 28, 2013      | July 15, 2013      | -                      | 3                      |  |  |
|                              | August 27, 2013  | September 11, 2013 | October 15, 2013   | -                      | 2                      |  |  |
|                              | <b>Q</b>         | • •                |                    |                        | 8                      |  |  |
| Common Stock                 |                  |                    |                    |                        |                        |  |  |
| Regular Dividend             | March 5, 2013    | March 19, 2013     | April 18, 2013     | 60.00                  | 12,963                 |  |  |
| <b>o</b>                     | August 7, 2013   | August 30, 2013    | September 27, 2013 | 63.00                  | 13,611                 |  |  |
| Special Dividend             | March 5, 2013    | March 19, 2013     | April 18, 2013     | 52.00                  | 11,235                 |  |  |
|                              | ,                |                    | ,                  |                        | 37,809                 |  |  |
| Charged to retained earnings |                  |                    |                    |                        | 37,854                 |  |  |

\* Dividends were declared based on total amount paid up.

# September 30, 2012 (Unaudited)

|                              |                  | Date              | Amount             |                          |                      |
|------------------------------|------------------|-------------------|--------------------|--------------------------|----------------------|
| Class                        | Approved         | Record            | Payable            | Per Share                | Total                |
|                              |                  |                   |                    | (in million pesos, excep | ot per share amounts |
| 10% Cumulative Convertible   |                  |                   |                    |                          |                      |
| Preferred Stock              |                  |                   |                    |                          |                      |
| Series GG                    | January 31, 2012 | February 29, 2012 | March 30, 2012     | 1.00                     | -                    |
| Series GG – Final Dividends  | July 3, 2012     | May 22, 2012      | August 30, 2012    | 0.0027/day               | -                    |
| Series HH                    | March 22, 2012   | April 20, 2012    | May 31, 2012       | 1.00                     | -                    |
| Series II                    | March 22, 2012   | April 20, 2012    | May 31, 2012       | 1.00                     | =                    |
|                              |                  |                   |                    |                          | -                    |
| Cumulative Non-Convertible   |                  |                   |                    |                          |                      |
| Redeemable Preferred Stoc    | k                |                   |                    |                          |                      |
| Series IV*                   | January 31, 2012 | February 20, 2012 | March 15, 2012     | -                        | 12                   |
|                              | May 8, 2012      | May 28, 2012      | June 15, 2012      | -                        | 13                   |
|                              | August 7, 2012   | August 22, 2012   | September 15, 2012 | -                        | 12                   |
|                              |                  |                   |                    |                          | 37                   |
| Common Stock                 |                  |                   |                    |                          |                      |
| Regular Dividend             | March 6, 2012    | March 20, 2012    | April 20, 2012     | 63.00                    | 13,611               |
| 0                            | August 7, 2012   | August 31, 2012   | September 28, 2012 | 60.00                    | 12,964               |
| Special Dividend             | March 6, 2012    | March 20, 2012    | April 20, 2012     | 48.00                    | 10,371               |
| · · ·                        |                  |                   | · · · ·            |                          | 36,946               |
| Charged to retained earnings |                  |                   |                    |                          | 36,983               |

Dividends were declared based on total amount paid up.

Our dividends declared after September 30, 2013 are detailed as follows:

|  | Date             |                   |                   | Amount                   |                      |  |
|--|------------------|-------------------|-------------------|--------------------------|----------------------|--|
| Class  | Approved         | Record            | Payable           | Per Share                | Total                |  |
| Cumulative Non-Convertible<br>Redeemable Preferred Stock |                  |                   |                   | (in million pesos, excep | t per share amounts) |  |
| Series IV*   | November 5, 2013 | November 20, 2013 | December 15, 2013 | -                        | 12                   |  |

Dividends were declared based on total amount paid up.

# Retained Earnings Available for Dividend Declaration

The following table shows the reconciliation of our retained earnings available for dividend declaration as at September 30, 2013:

|  | (in million pesos |
|--|-------------------|
| Consolidated unappropriated retained earnings as at December 31, 2012 (As Adjusted - Note 2)                   | 25,416            |
| Effect of PAS 27 Adjustments   | 2,913             |
| Parent Company's unappropriated retained earnings at beginning of the period (As Adjusted - Note 2)            | 28,329            |
| Less: Cumulative unrealized income - net of tax:   |                   |
| Fair value adjustments of investment property resulting to gain  | (535)             |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents)               | (1,096)           |
| Fair value adjustments (mark-to-market gains)  | (1,132)           |
| Unappropriated retained earnings as adjusted at beginning of the period  | 25,566            |
| Parent Company's net income attributable to equity holder of PLDT for the nine months ended                    |                   |
| September 30, 2013   | 16,385            |
| Less: Unrealized income – net of tax during the period:  |                   |
| Fair value adjustments (mark-to-market gains)  | (359)             |
|  | 16,026            |
| Realized income during the period  |                   |
| Realized foreign exchange gains  | 307               |
| Cash dividends declared during the period  |                   |
| Preferred stocks   | (45)              |
| Common stocks  | (37,809)          |
|  | (37,854)          |
| Parent Company's unappropriated retained earnings available for dividends as at September 30, 2013 (Unaudited) | 4.045             |

As at September 30, 2013, the consolidated unappropriated retained earnings amounted to Php16,516 million while the Parent Company's unappropriated retained earnings amounted to Php6,860 million. The difference of Php9,656 million pertains to the accumulated gains of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.

### 20. Interest-bearing Financial Liabilities

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of the following:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |
|--|-----------------------|----------------------|-------------------|
|  | (Unaudited)           | (Aud                 | ited)             |
|  |                       | (in million pesos)   |                   |
| Long-term portion of interest-bearing financial liabilities:       |                       |                      |                   |
| Long-term debt (Notes 4, 5, 9, 23 and 27)                          | 95,201                | 102,811              | 91,273            |
| Obligations under finance leases (Notes 3, 4, 5, 23 and 27)        | 7                     | 10                   | 7                 |
|  | 95,208                | 102,821              | 91,280            |
| Current portion of interest-bearing financial liabilities:         |                       |                      |                   |
| Long-term debt maturing within one year (Notes 4, 5, 9, 23 and 27) | 14,252                | 12,981               | 22,893            |
| Obligations under finance leases maturing within one year          | ,                     | ,                    |                   |
| (Notes 3, 4, 5, 23 and 27)   | 6                     | 8                    | 7                 |
| Notes payable (Notes 4, 5, 23 and 27)                              | -                     | -                    | 3,109             |
|  | 14.258                | 12.989               | 26.009            |

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--|-----------------------|----------------------|--------------------|
|  | (Unaudited)           | (Audited)            |                    |
|  |                       | (in million pesos)   |                    |
| Long-term debt (Note 27)                       | 342                   | 1,323                | 2,136              |
| Obligation under finance lease                 | 2                     | 3                    | 2                  |
| Unamortized debt discount at end of the period | 344                   | 1,326                | 2,138              |

The following table describes all changes to unamortized debt discount for the nine months ended September 30, 2013 and for the year ended December 31, 2012.

|   | 2013        | 2012     |
|---|-------------|----------|
|   | (Unaudited) | (Audited |
|   | (in millior | n pesos) |
| Unamortized debt discount at beginning of the period                    | 1,326       | 2,138    |
| Revaluations during the period  | 385         | 118      |
| Additions during the period   | 147         | 124      |
| Accretion during the period included as part of Financing costs - net - |             |          |
| Accretion on financial liabilities                                      | (1,514)     | (1,053)  |
| Discontinued operations (Note 2)  | -           | (1)      |
| Unamortized debt discount at end of the period                          | 344         | 1,326    |

# Long-term Debt

As at September 30, 2013, December 31, 2012 and January 1, 2012, long-term debt consists of:

|   |  | Septemb   | per 30, 2013      | Decembe   | r 31, 2012        | Janua     | y 1, 2012         |
|---|--|-----------|-------------------|-----------|-------------------|-----------|-------------------|
| Description   | Interest Rates   | (Una      | udited)           | (Au       |                   | dited)    |                   |
|   |  |           |                   | (in m     | illions)          |           |                   |
| U.S. Dollar Debts:  |  |           |                   |           |                   |           |                   |
| Export Credit Agencies-Supported Loa                              |  |           |                   |           |                   |           |                   |
| China Export and Credit<br>Insurance Corporation, or<br>Sinosure  | US\$ LIBOR + 0.55% to 1.80% in 2013 and 2012   | US\$133   | Php5,804          | US\$204   | Php8,363          | US\$248   | Php10,879         |
| Exportkreditnamnden, or EKN                                       | 1.90% to 3.79% and US\$ LIBOR +<br>0.30% to 0.35% in 2013 and<br>2012  | 98        | 4,259             | 104       | 4,253             | 102       | 4,483             |
| EKN and AB Svensk<br>Exportkredit, or SEK                         | 3.9550% in 2013 and 2012   | 59        | 2,571             | 67        | 2,771             | 79        | 3,475             |
| Finnvera, Plc, or Finnvera  | 2.99% and US\$ LIBOR + 1.35% in 2013 and 2012  | 30        | 1,289             | 44        | 1,813             | 63        | 2,775             |
| Others  | US\$ LIBOR + 0.35% to 0.40% in<br>2013 and 2012  | 1         | 34                | 2         | 101               | 6         | 256               |
|   |  | 321       | 13.957            | 421       | 17.301            | 498       | 21.868            |
| Fixed Rate Notes  | 8.35% in 2013 and 8.35% to<br>11.375% in 2012  | 233       | 10,130            | 232       | 9,544             | 377       | 16,56             |
| Term Loans:   |  |           |                   |           |                   |           |                   |
| Debt Exchange Facility  | 2.25% in 2013 and 2012   | -         | -                 | 254       | 10,450            | 238       | 10,47             |
| GSM Network Expansion Facilities                                  | US\$ LIBOR + 0.42% to 1.85% in 2013 and 2012   | 131       | 5,713             | 172       | 7,041             | 50        | 2,20              |
| Others  | US\$ LIBOR + 0.42% to 1.90% in<br>2013 and 2012  | 685       | 29,833            | 194       | 7,962             | 51        | 2,22              |
|   |  | US\$1,370 | 59,633            | US\$1,273 | 52,298            | US\$1,214 | 53,330            |
|   |  |           |                   |           |                   |           |                   |
| Philippine Peso Debts:<br>Corporate Notes                         | 5.3300% to 7.7946% in 2013 and<br>5.3300% to 9.1038% in 2012   |           | 29,900            |           | 40,006            |           | 38,510            |
| Term Loans:   |  |           |                   |           |                   |           |                   |
| Unsecured Term Loans  | 3.9250% to 7.4292%, PDST-F +<br>0.30% and BSP overnight rate +<br>0.30% to 0.50% in 2013 and<br>4.9110% to 8.6271%, PDST-F +<br>0.30% and BSP overnight rate +<br>0.30% to 0.50% in 2012 |           | 19,920            |           | 23,488            |           | 22,277            |
| Secured Term Loans  | PDST-F + 1.375% in 2012  |           | -                 |           | -                 |           | 49                |
|   |  |           | 49,820            |           | 63,494            |           | 60,83             |
| Total long-term debt<br>Less portion maturing within one year (No | te 27)   |           | 109,453<br>14,252 |           | 115,792<br>12,981 |           | 114,166<br>22,893 |
| Noncurrent portion of long-term (Note 27)                         |  |           | Php95,201         |           | Php102,811        |           | Php91,273         |

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our consolidated outstanding long-term debt at nominal values as at September 30, 2013 are as follows:

|                     | U.S. Dolla     | U.S. Dollar Debt |        |         |
|---------------------|----------------|------------------|--------|---------|
| Year                | In U.S. Dollar | In Php           | In Php | In Php  |
|                     |                | (in mil          | lions) |         |
| 2013 <sup>(1)</sup> | 63             | 2,718            | 1,244  | 3,962   |
| 2014                | 286            | 12,435           | 1,290  | 13,725  |
| 2015                | 271            | 11,807           | 397    | 12,204  |
| 2016                | 255            | 11,113           | 8,352  | 19,465  |
| 2017 and onwards    | 502            | 21,870           | 38,569 | 60,439  |
|                     | 1,377          | 59,943           | 49,852 | 109,795 |

<sup>(1)</sup> October 1, 2013 through December 31, 2013.

# U.S. Dollar Debts:

# Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

# Sinosure

On December 1, 2005, DMPI signed a US\$23.6 million Export Credit Agreement with Societe Generale and Credit Agricole Corporate and Investment Bank (formerly Calyon) as the lenders, to finance the supply of the equipment, software, and offshore services for the GSM 1800 in the National Capital Region, or NCR. The loan is covered by a guarantee from China Export and Credit Insurance Corporation, or Sinosure, the export-credit agency of China. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 1, 2013. The loan was fully drawn on various dates in 2005, 2006 and 2007. The amounts of US\$2 million, or Php73 million, US\$3 million, or Php138 million, and US\$7 million, or Php296 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 4, 2006, DMPI signed a US\$12.7 million Export Credit Agreement with the Societe Generale and Calyon as the lenders, to finance the supply of the equipment and software for the expansion of its GSM services in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on October 6, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$12.2 million. The undrawn amount of US\$0.5 million was cancelled. The amounts of US\$3 million, or Php114 million, US\$4 million, or Php143 million, and US\$5 million, or Php229 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 1, 2006, DMPI signed a US\$12 million Buyer's Credit Agreement with ING Bank N.V., or ING Bank, as the lender, to finance the equipment and service contracts for the upgrading of GSM Phase 5 Core Intelligent Network Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 1, 2014. The loan was drawn in 2006 and 2007 in the amounts of US\$8 million and US\$2 million, respectively. The undrawn amount of US\$2 million was cancelled. The amounts of US\$1 million, or Php61 million, US\$2 million, or Php86 million, and US\$4 million, or Php153 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$21 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 South Luzon Change Out and Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was drawn on various dates in 2008 in the total amount of US\$20.8 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$6 million, or Php259 million, US\$7 million, or Php305 million, and US\$10 million, or Php457 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On May 24, 2007, DMPI signed a US\$12.1 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment for the Phase 6 NCR Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 24, 2015. The loan was fully drawn on various dates in 2008. The amounts of US\$3 million, or Php150 million, US\$4 million, or Php178 million, and US\$6 million, or Php266 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$23.8 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Core Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$10 million, or Php444 million, US\$14 million, or Php558 million, and US\$17 million, or Php746 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$5.5 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the supply of 3G network in the NCR. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php103 million, US\$3 million, or Php129 million, and US\$4 million, or Php172 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On November 10, 2008, DMPI signed a US\$4.9 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 7 Intelligent Network Expansion Project. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semiannual installments, with final installment on September 1, 2016. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php92 million, US\$3 million, or Php116 million, and US\$4 million, or Php155 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On August 14, 2009, DMPI signed a US\$24.7 million loan agreement with Credit Suisse as the lead arranger, to finance the supply of telephone equipment for the Phase 7 NCR Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was fully drawn on various dates in 2009 and 2010. The amounts of US\$18 million, or Php725 million, and US\$21 million, or Php930 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on February 14, 2013.

On August 14, 2009, DMPI signed a US\$15.9 million loan agreement with The Hong Kong and Shanghai Banking Corporation Limited, or HSBC, as the lender, to finance the supply of telephone equipment for the Phase 7 South Luzon Base Station Expansion. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on August 14, 2017. The loan was drawn in 2009 and 2010 in the amounts of US\$14.1 million and US\$1.4 million, respectively. The undrawn amount of US\$0.4 million was cancelled. The amounts of US\$11 million, or Php453 million, and US\$13 million, or Php581 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on February 14, 2013.

On December 16, 2009, DMPI signed a US\$50 million Buyer's Credit Agreement with China Citic Bank Corporation Ltd., or China CITIC Bank, as the original lender, to finance the equipment and related materials for the Phase 2 3G Expansion and Phase 8A NCR and South Luzon BSS Expansion Projects. The loan is covered by a guarantee from Sinosure. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on December 17, 2017. The loan was drawn on various dates in 2010 in the total amount of US\$48 million. The undrawn amount of US\$2 million was cancelled. On December 9, 2011, China CITIC Bank and ING Bank signed a Transfer Certificate and Assignment of Guarantee whereby ING Bank took over the debt under the Buyers Credit Agreement. The assignment of debt was completed on December 16, 2011. The amounts of US\$31 million, or Php1,328 million, US\$34 million, or Php1,392 million, and US\$41 million, or Php1,786 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On September 15, 2010, DMPI signed a US\$117.3 million loan agreement with China Development Bank and HSBC as the lenders, to finance the purchase of equipment and related materials for the expansion of: (1) Phase 8A and 8B Core and IN; (2) Phase 3 3G; and (3) Phase 8B NCR and SLZ BSS. The loan is covered by a guarantee from Sinosure. The loan is payable over seven and a half years in 15 equal semi-annual installments, with final installment on April 10, 2019. The loan was drawn on various dates in 2011 in the total amount of US\$116.3 million. The undrawn amount of US\$1 million was cancelled. The amount of US\$20 million was partially prepaid on April 10, 2013. The amounts of US\$73 million, or Php3,180 million, US\$101 million, or Php4,140 million, and US\$116 million, or Php5,108 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

### EKN

On April 4, 2006, DMPI signed a US\$18.7 million loan agreement with Nordea Bank AB (publ), or Nordea Bank, as the lender, to finance the supply of GSM mobile telephone equipment and related services. The loan is covered by a guarantee from EKN, the export-credit agency of Sweden. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on April 30, 2015. The loan was fully drawn on various dates in 2006 and 2007. The amounts of US\$4 million, or Php187 million, US\$5 million, or Php220 million, and US\$7 million, or Php329 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On December 20, 2006, DMPI signed a US\$43.2 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the GSM Expansion in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on May 30, 2014. The loan was drawn on various dates in 2007 and 2008 in the total amount of US\$42.9 million. The undrawn amount of US\$0.3 million was cancelled. The amounts of US\$6 million, or Php277 million, US\$10 million, or Php393 million, and US\$16 million, or Php700 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On December 17, 2007, DMPI signed a US\$59.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 North Luzon Expansion and Change-out Project. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on March 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$59 million. The undrawn amount of US\$0.2 million was cancelled. The amounts of US\$24 million, or Php1,029 million, US\$31 million, or Php1,248 million, and US\$38 million, or Php1,631 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On December 17, 2007, DMPI signed a US\$51.2 million Buyer's Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the equipment and service contracts for the Phase 7 Expansion Project in Visayas and Mindanao. The loan is covered by a guarantee from EKN. The loan is payable over nine years in 18 equal semi-annual installments, with final installment on June 30, 2017. The loan was drawn on various dates in 2008 and 2009 in the total amount of US\$51.1 million. The undrawn amount of US\$0.1 million was cancelled. The amounts of US\$24 million, or Php1,021 million, US\$26 million, or Php1,084 million, and US\$32 million, or Php1,416 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On November 25, 2008, Smart signed a US\$22 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent and subsequently assigned its rights and obligations to the AB Svensk Exportkredit (Swedish Export Credit Corporation), or SEK, supported by EKN on December 10, 2008, to finance the supply, installation, commissioning and testing of Wireless-Code Division Multiple Access, or W-CDMA/High Speed Packet Access project. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 10, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of US\$2 million, or Php104 million, US\$5 million, or Php195 million, and US\$9 million, or Php414 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 10, 2011, Smart signed a US\$49 million term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. On July 5, 2011, Nordea Bank assigned its rights and obligations to the SEK guaranteed by EKN. The loan is comprised of Tranche A1, Tranche A2 and Tranche B in the amounts of US\$24 million, US\$24 million and US\$1 million, respectively. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 29, 2016 for Tranche A1 and B and October 30, 2017 for Tranche A2. The loan was drawn on various dates in 2012 in the total amount of US\$33 million (US\$24 million for Tranche A1, US\$8 million for Tranche A2 and US\$1 million for Tranche B) and the remaining balance of US\$16 million for Tranche A2 was drawn on February 21, 2013. The aggregate amounts of US\$38 million, or Php1,654 million, and US\$27 million, or Php1,113 million, net of unamortized debt discount, remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

On February 22, 2013, Smart signed a US\$46 million five-year term loan facility agreement with Nordea Bank as the original lender, arranger and facility agent, to finance the supply and services contracts for the modernization and expansion project. Nordea Bank will subsequently assign its rights and obligations to the SEK guaranteed by EKN. This facility is payable semi-annually in ten equal installments commencing six months after the applicable mean delivery date. No availment has been made on this loan as at November 5, 2013.

# EKN and SEK

On April 28, 2009, DMPI signed a US\$96.6 million loan agreement with Nordea Bank and ING Bank as the lenders, to finance the supply of GSM mobile telephone equipment and related services. The loan is comprised of Tranche 1 and Tranche 2 in the amounts of US\$43 million and US\$53.6 million, respectively. The loan is covered by a guarantee from EKN and SEK, the export-credit agency of Sweden. Both tranches are payable over eight and a half years in 17 equal semi-annual installments, with final installment on February 28, 2018 for Tranche 1 and November 30, 2018 for Tranche 2. Tranches 1 and 2 were fully drawn on various dates in 2009, 2010 and 2011. The aggregate amounts of US\$59 million, or Php2,571 million, US\$67 million, or Php2,771 million, and US\$79 million, or Php3,475 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

## Finnvera, Plc, or Finnvera

On May 14, 2009, Smart signed a US\$50 million term loan facility agreement with Finnish Export Credit, Plc, or FEC, guaranteed by Finnvera, the Finnish Export Credit Agency, and awarded to Calyon as the arranger, to finance the Phase 10 (Extension) GSM equipment and services contract. The loan is payable over five years in ten equal semi-annual installments, with final installment on July 15, 2014. The loan was fully drawn on July 15, 2009. The amounts of US\$10 million, or Php432 million, US\$20 million, or Php811 million, and US\$29 million, or Php1,290 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On October 9, 2009, Smart signed a US\$50 million term loan facility agreement with FEC guaranteed by Finnvera for 100% political and commercial risk cover to finance GSM equipment and services contracts. The loan was awarded to Citicorp as the arranger which was subsequently transferred to ANZ on January 4, 2011. The loan is payable over five years in ten equal semi-annual installments, with final installment on April 7, 2015. The loan was fully drawn on April 7, 2010. The amounts of US\$20 million, or Php857 million, US\$24 million, or Php1,002 million, and US\$34 million, or Php1,485 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

### Others - Export Credit Agencies

## Compagnie Francaise d'Assurance pour le Commerce Exterieur, or COFACE

On August 18, 2005, DMPI signed a US\$19 million Export Credit Agreement with ING Bank, Societe Generale and Calyon as the lenders, to finance the supply of telecommunications materials, software, and services for the GSM Cellular Mobile Short Term Core Expansion Project. The loan is covered by a guarantee from COFACE, the export-credit agency of France. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on February 8, 2013. The loan was drawn on various dates in 2005 and 2006 in the total amount of US\$18.2 million. The undrawn amount of US\$0.8 million was cancelled. The amount of US\$1 million, or Php53 million, and US\$4 million, or Php171 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on February 8, 2013.

# Atradius N.V., or Atradius

On July 3, 2006, DMPI signed a US\$6 million Buyer's Credit Agreement with ING Bank as the lender, to finance the equipment and service contracts for the Phase 5 Mobile Messaging Core Network. The loan is covered by a guarantee from Atradius, the export-credit agency of Amsterdam, the Netherlands. The loan is payable over seven years in 14 equal semi-annual installments, with final installment on June 27, 2014. The loan was drawn in 2006 and 2007 in the total amount of US\$5.4 million. The undrawn amount of US\$0.6 million was cancelled. The amounts of US\$1 million, or Php34 million, US\$1 million, or Php48 million, and US\$2 million, or Php85 million, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# Fixed Rate Notes

On March 6, 1997, PLDT issued a US\$300 million 20-year non-amortizing fixed rate note with a coupon rate of 8.350% under the Indenture dated April 19, 1996 between PLDT and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) as trustee ("2017 Notes"). Proceeds from the issuance of these notes were used to finance service improvements and expansion programs. The 2017 Notes will mature on March 6, 2017. On various dates in 2008 to 2010, PLDT repurchased the 2017 Notes from the secondary market in the aggregate amount of US\$65.7 million. The amounts of US\$233 million, or Php10,130 million, US\$232 million, or Php9,544 million, and US\$232 million, or Php10,189 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On May 15, 2002, PLDT issued a US\$250 million ten-year non-amortizing fixed rate note with a coupon rate of 11.375% under the Indenture dated April 1, 1994 between PLDT and JP Morgan Chase Bank (formerly The Chase Manhattan Bank (National Association)) as trustee ("2012 Notes"). Proceeds from the issuance of these notes were used to refinance existing short-term and medium-term debts maturing up to 2005. On various dates in 2008 and 2009, PLDT repurchased the 2012 Notes from the secondary market in the aggregate amount of US\$104.2 million. The amounts of US\$145 million, or Php6,378 million, remained outstanding as at January 1, 2012. The 2012 Notes was paid in full on maturity date on May 15, 2012. See *Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments*.

# Term Loans

### US\$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US\$289 million, or 69.4%, of the aggregate of PCEV's outstanding restructured debt at that time, in exchange for debt and a cash payment by Smart. In particular, Smart paid cash amounting to US\$1.5 million, or Php84 million and issued new debt of US\$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million. The loan is payable in full upon maturity on June 30, 2014. The amounts of US\$254 million, or Php10,450 million, and US\$238 million, or Php10,472 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on September 27 and September 30, 2013 and the remaining debt discount of US\$13 million, or Php731 million, was amortized in full in September 2013.

### GSM Network Expansion Facilities

On October 16, 2006, Smart signed a US\$50 million term loan facility agreement with Metropolitan Bank and Trust Company, or Metrobank, to finance the related Phase 9 GSM facility. The loan is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date, with final installment on October 10, 2012. The loan was fully drawn on October 10, 2007. The amount of US\$11 million, or Php488 million, remained outstanding as at January 1, 2012. The loan was paid in full on October 10, 2012.

On October 10, 2007, Smart signed a US\$50 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord LB, as the lender with Standard Chartered Bank (Hong Kong) Ltd., or Standard Chartered, as the facility agent, to finance the related Phase 10 GSM equipment and service contracts. The loan is payable over five years in ten equal semi-annual payments, with final installment on March 11, 2013. The loan was fully drawn on March 10, 2008. The amounts of US\$5 million, or Php205 million, and US\$15 million, or Php657 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 11, 2013.

On November 27, 2008, Smart signed a US\$50 million term loan facility agreement with FEC to finance the Phase 10 GSM equipment and service contracts. The loan was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered, Mizuho Corporate Bank Ltd. as the lead arrangers. The loan is payable over five years in ten equal semi-annual installments, with final installment on January 23, 2014. The loan was fully drawn on various dates in 2009. The amounts of US\$5 million, or Php217 million, US\$15 million, or Php614 million, and US\$25 million, or Php1,090 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

On June 6, 2011, Smart signed a US\$60 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in eight equal semi-annual installments commencing on the 18th month from signing date, with final installment on June 6, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$45 million, or Php1,959 million, and US\$53 million, or Php2,157 million, remained outstanding as at September 30, 2013 and December 31, 2012, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On August 19, 2011, Smart signed a US\$50 million term loan facility agreement with FEC as the lender, to finance the supply contracts for the modernization and expansion project. The loan was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC and Mizuho Corporate Bank, Ltd. The loan is payable over five years in ten equal semi-annual installments commencing six months after August 19, 2012, with final installment on August 19, 2016. The loan was fully drawn on various dates in 2012. The amounts of US\$37 million, or Php1,623 million, and US\$50 million, or Php2,040 million, net of unamortized debt discount, remained outstanding as at September 30, 2013 and December 31, 2012, respectively. See Note 27 – *Financial Assets and Liabilities – Derivative Financial Instruments*.

On May 29, 2012, Smart signed a US\$50 million term loan facility agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lender, to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in nine equal semi-annual installments commencing on May 29, 2013, with final installment on May 29, 2017. The loan was fully drawn on various dates in 2012. The amounts of US\$44 million, or Php1,914 million, and US\$49 million, or Php2,025 million, net of unamortized debt discount, remained outstanding as at September 30, 2013 and December 31, 2012, respectively. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

#### Other Term Loans

On January 15, 2008, PLDT signed a US\$100 million term loan facility agreement with Nord LB to be used for its capital expenditure requirements. The loan is payable over five years in ten equal semi-annual installments. Two separate drawdowns of US\$50 million each were drawn from the facility on March 27, 2008 and April 10, 2008. The amounts of US\$10 million, or Php411 million, and US\$30 million, or Php1,318 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on March 27, 2013.

On July 15, 2008, PLDT signed a US\$50 million term loan facility agreement with the Bank of the Philippine Islands, or BPI, to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on July 22, 2013. The loan was fully drawn on various dates in 2008. The amounts of US\$9 million, or Php362 million, and US\$21 million, or Php904 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was paid in full on July 22, 2013.

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, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on March 7, 2017. Two separate drawdowns of US\$100 million and US\$50 million were drawn on May 10, 2012 and September 4, 2012, respectively. The amounts of US\$117 million, or Php5,080 million, and US\$150 million, or Php6,162 million, remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

On March 16, 2012, PLDT signed a US\$25 million term loan facility agreement with Citibank, N.A. Manila to refinance loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing 12 months from initial drawdown date, with final installment on May 30, 2017. The loan was fully drawn on May 29, 2012. The amounts of US\$22 million, or Php960 million, and US\$25 million, or Php1,027 million, remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

On March 23, 2012, SPi signed a US\$15 million term loan facility agreement with Security Bank to finance working capital requirements. The loan is payable over five years in 19 quarterly installments commencing on September 24, 2012, with final installment on March 27, 2017. The loan was fully drawn on March 26, 2012. The amounts of US\$13 million, or Php551 million, has been presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale as at December 31, 2012. The loan was prepaid in full on April 24, 2013. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

On January 16, 2013, PLDT signed a US\$300 million term loan facility agreement with a syndicate of banks with The Bank of Tokyo-Mitsubishi UFJ, Ltd., as the facility agent, to finance capital expenditures and/or to refinance existing obligations which were utilized for network expansion and improvement programs. The loan is payable over five years in nine equal semi-annual installments commencing on the date which falls 12 months after the date of the loan agreement, with final installment on January 16, 2018. The amounts of US\$40 million, US\$160 million and US\$100 million were drawn on March 6, 2013, April 19, 2013 and July 3, 2013, respectively. The amount of US\$300 million, or Php13,063 million, remained outstanding as at September 30, 2013. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

On January 28, 2013, Smart signed a US\$35 million term loan facility agreement with China Banking Corporation to finance the equipment and service contracts for the modernization and expansion project. The loan is payable over five years in ten equal semi-annual installments. The loan was fully drawn on May 7, 2013. The amount of US\$31 million, or Php1,371 million, remained outstanding as at September 30, 2013.

On March 25, 2013, Smart signed a US\$50 million term loan facility agreement with FEC as the original lender, to finance the supply and services contracts for the modernization and expansion project. The loan was arranged by the Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mizuho Corporate Bank, Ltd. The loan is payable over five years in nine equal semi-annual installments commencing six months after drawdown date. The loan was partially drawn on September 16, 2013. The amount of US\$17 million, or Php747 million, net of unamortized debt discount, remained outstanding as at September 30, 2013.

On May 31, 2013, Smart signed a US\$80 million term loan facility agreement with China Banking Corporation to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in ten equal semi-annual installments commencing six months after drawdown date, with final installment on May 31, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$80 million, or Php3,483 million, remained outstanding as at September 30, 2013.

On June 20, 2013, Smart signed a US\$120 million term loan facility agreement with Mizuho Corporate Bank, Ltd. and Sumitomo Mitsui Banking Corporation, as the lead arrangers and creditors with Sumitomo Mitsui Banking Corporation, as the facility agent. Proceeds of the facility will be used to refinance existing loan obligations which were utilized for network expansion and improvement program of Smart. The loan is payable over five years in eight equal semi-annual installments commencing six months after drawdown date, with final installment on June 20, 2018. The loan was fully drawn on September 25, 2013. The amount of US\$118 million, or Php5,129 million, net of unamortized debt discount, remained outstanding as at September 30, 2013. See Note 27 – Financial Assets and Liabilities – Derivative Financial Instruments.

# Philippine Peso Debts:

### Corporate Notes

### Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A fiveyear notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes were used to finance the capital expenditures for network improvement and expansion program of Smart. The Series A note of Php3,800 million was paid in full on February 16, 2012. The amounts of Php1,140 million, Php1,152 million and Php4,963 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

#### Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued Php5,000 million unsecured fixed rate corporate notes. Proceeds from the issuance of these notes were used primarily to finance the capital expenditures for network upgrade and expansion program of Smart. The notes are payable over five years with an annual amortization rate of 1% of the principal amount on the first year up to the fourth year from issue date and the balance payable upon maturity on December 13, 2013. The amount of Php4,827 million, net of unamortized debt discount, remained outstanding as at January 1, 2012 and was paid in full on March 12, 2012.

# Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the issuance of these notes were used to finance capital expenditures of PLDT. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on February 21, 2014. The Series B notes are payable over seven years with an amortization rate of 1% of the issue price on the fifth year and sixth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year up to the ninth year from issue date and the balance payable upon maturity on February 22, 2016. The Series C notes are payable over ten years with an amortization rate of 1% of the issue price on the fifth year up to the ninth year from issue date and the balance payable upon maturity on February 20, 2019. The aggregate amount of Php4,952 million remained outstanding as at January 1, 2012. The notes were prepaid in full on November 20, 2012.

# Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A five-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The Series A notes are payable over five years with an annual amortization rate of 2% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 10, 2015. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on December 12, 2016. The Series C notes are payable in full upon maturity on December 10, 2019. The aggregate amount of Php6,781 million remained outstanding as at January 1, 2012. The notes were prepaid in full on December 10, 2012.

### Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used to finance capital expenditures and/or to refinance existing loan obligations which were utilized for network expansion and improvement. The notes are non-amortizing and will mature on July 13, 2015. The amount of Php2,500 million each remained outstanding as at December 31, 2012 and January 1, 2012. The notes were prepaid in full on July 15, 2013.

# Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010. Proceeds from the issuance of these notes were used primarily to finance capital expenditures for network improvement and expansion program of Smart. The notes are non-amortizing and will mature on July 13, 2015. The amounts of Php2,490 million and Php2,487 million, net of unamortized debt discount, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on July 15, 2013.

## Php2,000 Million Fixed Rate Corporate Notes

On March 9, 2011, Smart signed a Php2,000 million Notes Facility Agreement with BDO Private Bank, Inc. comprised of Tranche A amounting to Php1,000 million which was issued on March 16, 2011 and Tranche B amounting to Php1,000 million which was fully drawn and issued in multiple drawdowns of Php250 million each on various dates in 2011. Proceeds from the issuance of these notes were used to finance capital expenditures for network improvement and expansion program of Smart. The notes are payable in full, five years from their respective issue dates. The aggregate amount of Php2,000 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012.

#### Php5,000 Million Fixed Rate Corporate Notes

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year notes amounting to Php865 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on March 25, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 26, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on March 24, 2021. The aggregate amounts of Php4,950 million and Php5,000 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The notes were prepaid in full on March 25, 2013.

# Php5,000 Million Fixed Rate Corporate Notes

On November 8, 2011, PLDT issued Php5,000 million fixed rate notes under a Notes Facility Agreement dated November 4, 2011, comprised of Series A five-year notes amounting to Php2,795 million, Series B seven-year notes amounting to Php230 million and Series C ten-year notes amounting to Php1,975 million. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The Series A notes are payable over five years with an annual amortization rate of 1% of the issue price on the first year up to the fourth year from issue date and the balance payable upon maturity on November 9, 2016. The Series B notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2018. The Series C notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 8, 2021. The aggregate amounts of Php4,950 million remained outstanding as at September 30, 2013 and December 31, 2012 and Php5,000 million as at January 1, 2012.

# Php5,500 Million Fixed Rate Corporate Notes

On March 19, 2012, Smart issued Php5,500 million 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. Proceeds from the issuance of these notes were used primarily for debt refinancing and capital expenditures of Smart. 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 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. The notes were partially prepaid in the amount of Php1,376 million on June 19, 2013. The aggregate amounts of Php4,037 million and Php5,464 million, net of unamortized debt discount, remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

### Php1,500 Million Fixed Rate Corporate Notes

On July 27, 2012, PLDT issued Php1,500 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement dated July 25, 2012. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on July 29, 2019. The notes were partially prepaid in the amount of Php1,188 million on July 29, 2013. The amounts of Php297 million and Php1,500 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

#### Php8,800 Million Fixed Rate Corporate Notes

On September 21, 2012, PLDT issued Php8,800 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated September 19, 2012, comprised of Series A seven-year notes amounting to Php4,610 million and Series B ten-year notes amounting to Php4,190 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issue price on the first year up to the sixth year from issue date and the balance payable upon maturity on September 21, 2019. The Series B notes are payable over ten years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on September 21, 2022. The notes were partially prepaid in the amount of Php2,055 million on June 21, 2013. The aggregate amounts of Php6,678 million and Php8,800 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

# Php6,200 Million Fixed Rate Corporate Notes

On November 22, 2012, PLDT issued Php6,200 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated November 20, 2012, comprised of Series A seven-year notes amounting to Php3,775 million and Series B ten-year notes amounting to Php2,425 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over seven years with an annual amortization rate of 1% of the issued price on the first year up to the sixth year from issue date and the balance payable upon maturity on November 22, 2019. The Series B notes are payable over ten-years with an annual amortization rate of 1% of the issue price on the first year up to the ninth year from issue date and the balance payable upon maturity on November 22, 2022. The aggregate amount of Php6,200 million remained outstanding as at September 30, 2013 and December 31, 2012.

# Php1,376 Million Fixed Rate Corporate Notes

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

# Php2,055 Million Fixed Rate Corporate Notes

On June 21, 2013, PLDT issued Php2,055 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated June 14, 2013, comprised of Series A notes amounting to Php1,735 million and Series B notes amounting to Php320 million. Proceeds from the issuance of these notes were used to refinance existing loan obligations which were used for capital expenditures for network expansion and improvement. The Series A notes are payable over six years with an annual amortization rate of 1% of the issue price up to the fifth year and the balance payable upon maturity on September 21, 2019. The Series B notes are payable upon maturity on September 21, 2019. The series B notes are payable upon maturity on September 21, 2022. The aggregate amount of Php2,034 million remained outstanding as at September 30, 2013.

# Php1,188 Million Fixed Rate Corporate Notes

On July 29, 2013, PLDT issued Php1,188 million fixed rate corporate notes under a Fixed Rate Corporate Notes Facility Agreement, dated July 19, 2013. Proceeds from the issuance of these notes were used to finance capital expenditures for network expansion and improvement. The notes are payable over six years with an annual amortization rate of 1% of the issue price on the first year up to the fifth year from the issue date and the balance upon maturity on July 29, 2019. The amount of Php1,188 million remained outstanding as at September 30, 2013.

### Term Loans

# Unsecured Term Loans

# Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Php2,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on November 13, 2013. The loan was fully drawn on November 13, 2008. The amounts of Php156 million, Php624 million and Php1,248 million, net of unamortized debt discount, remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a Php2,400 million term loan facility agreement with Land Bank of the Philippines, or LBP, to finance capital expenditures and/or to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in ten equal semi-annual installments, with final installment on December 12, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php256 million, Php511 million and Php1,022 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a Php3,000 million term loan facility agreement with Union Bank of the Philippines, or Union Bank, to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date, with final installment on December 23, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php333 million, Php667 million and Php1,333 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a Php2,000 million term loan facility agreement with Philippine National Bank, or PNB, to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date, with final installment on December 19, 2013. The loan was fully drawn on various dates in 2008 and 2009. The amounts of Php118 million, Php470 million and Php941 million, remained outstanding as at September 30, 2013, December 31, 2012, and January 1, 2012, respectively.

### Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a Php2,500 million term loan facility agreement with Banco de Oro Unibank, Inc., or BDO, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The loan was fully drawn on April 17, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 17, 2012.

### Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Php1,500 million term loan facility agreement with BDO to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on May 20, 2012. The loan was fully drawn on May 20, 2009. The amount of Php1,498 million, net of unamortized debt discount, remained outstanding as at January 1, 2012 and was paid in full on May 20, 2012.

## Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a Php2,500 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The loan was fully drawn on June 28, 2009. The amount of Php2,500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on September 28, 2012.

### Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed Php1,500 million term loan facility agreement with Allied Banking Corporation to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments commencing on September 15, 2010, with final installment on September 15, 2014. The loan was fully drawn on September 15, 2009. The amounts of Php618 million and Php971 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on June 17, 2013.

# Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a Php500 million term loan facility agreement with Insular Life Assurance Company, Ltd. to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on July 1, 2016. The loan was fully drawn on July 1, 2009. The amount of Php500 million remained outstanding as at January 1, 2012. The loan was prepaid in full on October 1, 2012.

#### Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Php1,000 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown, with final installment on August 1, 2014. The loan was fully drawn on August 3, 2009. The amounts of Php250 million, Php438 million and Php688 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a Php2,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. The amounts of Php588 million, Php941 million and Php1,412 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

### Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a Php1,000 million term loan facility agreement with BPI to finance capital expenditures and/or refinance existing obligations which were utilized for service improvements and expansion programs. The loan is payable over five years in 17 equal quarterly installments, with final installment on December 18, 2014. The loan was fully drawn on December 18, 2009. The amounts of Php294 million, Php471 million and Php706 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

### Php1,500 Million Term Loan Facility

On March 15, 2011, Smart signed a Php1,500 million term loan facility agreement with Metrobank to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on March 22, 2016. The loan was fully drawn on March 22, 2011. The amount of Php1,500 million remained outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012.

## Php2,000 Million Term Loan Facility

On March 24, 2011, Smart signed a Php2,000 million term loan facility agreement with PNB to finance capital expenditures for network improvement and expansion program. The loan is payable in full upon maturity on March 29, 2016. The loan was fully drawn on March 29, 2011. The loan was partially prepaid on December 28, 2012 in the amount of Php200 million. The amount of Php1,800 million remained outstanding as at September 30, 2013 and December 31, 2012 and Php2,000 million as at January 1, 2012.

# Php500 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php500 million term loan facility agreement with the Manufacturers Life Insurance Co. (Phils.), Inc., or Manulife, to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on June 17, 2016. The loan was fully drawn on June 16, 2011. The amount of Php500 million each remained outstanding as at December 31, 2012 and January 1, 2012. The loan was prepaid in full on June 17, 2013.

# Php300 Million Term Loan Facility

On April 4, 2011, PLDT signed a Php300 million term loan facility agreement with the Manulife to finance capital expenditures and/or refinance its existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 29, 2016. The loan was fully drawn on April 28, 2011. The amount of Php300 million each remained outstanding as at December 31, 2012 and January 1, 2012. The loan was prepaid in full on July 29, 2013.

# Php1,000 Million Term Loan Facility

On April 12, 2011, Digitel signed a Php1,000 million term loan facility agreement with Metrobank as the lender, to finance additional capital expenditure requirements. The loan is payable in full upon maturity on June 23, 2016. The loan was partially drawn on various dates in June 2011 in the aggregate amount of Php710 million and the remaining balance was subsequently drawn on June 21, 2012. The amounts of Php1,000 million and Php710 million remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The loan was prepaid in full on September 10, 2013.

# Php2,000 Million Term Loan Facility

On April 14, 2011, Digitel signed a Php2,000 million term loan facility agreement with BDO as the lender, to finance the capital expenditures and/or refinance existing loan obligations. The loan is payable in full upon maturity on May 26, 2016. The loan was drawn on various dates in 2011 in the total amount of Php1,948 million. The undrawn amount of Php52 million was cancelled. The amount of Php1,948 million each remained outstanding as at December 31, 2012 and January 1, 2012. The loan was prepaid in full on August 27, 2013.

# Php2,000 Million Term Loan Facility

On March 20, 2012, PLDT signed a Php2,000 million term loan facility agreement with RCBC to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan 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 loan was fully drawn on April 12, 2012. The amount of Php2,000 million each remained outstanding as at September 30, 2013 and December 31, 2012.

### Php3,000 Million Term Loan Facility

On April 27, 2012, PLDT signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from drawdown date and the balance payable upon maturity on July 18, 2017. The loan was fully drawn on July 18, 2012. The amounts of Php2,970 million and Php3,000 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

### Php2,000 Million Term Loan Facility

On May 29, 2012, PLDT signed a Php2,000 million term loan facility agreement with LBP to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over five years with an annual amortization rate of 1% on the first year up to the fourth year from initial drawdown date and the balance payable upon maturity on June 27, 2017. The loan was fully drawn on June 27, 2012. The amounts of Php1,980 million and Php2,000 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

# Php1,000 Million Term Loan Facility

On June 7, 2012, Smart signed a Php1,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over five years with an annual amortization rate of 1% of the principal amount commencing on the first anniversary of the initial drawdown up to the fourth year and the balance payable upon maturity on August 22, 2017. The loan was fully drawn on August 22, 2012. The amounts of Php990 million and Php1,000 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

## Php1,500 Million Term Loan Facility

On June 27, 2012, DMPI signed a Php1,500 million term loan facility agreement with BPI, BPI Asset Management and Trust Group and ALFM Peso Bond Fund, Inc. to finance capital expenditures for network expansion and improvements. The loan is payable over seven years with an annual amortization rate of 1% of the outstanding principal amount on the first year up to the sixth year and the balance payable on June 29, 2019. The amount of Php700 million was partially drawn on June 29, 2012 and the remaining balance of Php800 million was subsequently drawn on September 24, 2012. The amount of Php1,485 million and Php1,500 million, remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

# Php200 Million Term Loan Facility

On August 31, 2012, PLDT signed a Php200 million term loan facility agreement with Manulife to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on October 9, 2019. The loan was fully drawn on October 9, 2012. The amount of Php200 million each remained outstanding as at September 30, 2013 and December 31, 2012.

# Php1,000 Million Term Loan Facility

On September 3, 2012, PLDT signed a Php1,000 million term loan facility agreement with Union Bank to finance capital expenditures and/or refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable over seven years with an annual amortization rate of 1% on the first year up to the sixth year from initial drawdown date and the balance payable upon maturity on January 13, 2020. The loan was fully drawn on January 11, 2013. The amount of Php1,000 million remained outstanding as at September 30, 2013.

# Php1,000 Million Term Loan Facility

On October 11, 2012, PLDT signed a Php1,000 million term loan facility agreement with Philippine American Life and General Insurance to refinance existing loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on December 5, 2022. The loan was fully drawn on December 3, 2012. The amount of Php1,000 million each remained outstanding as at September 30, 2013 and December 31, 2012.

# Php3,000 Million Term Loan Facility

On December 17, 2012, Smart signed a Php3,000 million term loan facility agreement with LBP to finance capital expenditures for its network upgrade and expansion program. The loan is payable over seven years with an annual amortization rate of 1% of the principal amount on the first year up to the sixth year commencing on the first anniversary of the initial drawdown and the balance payable upon maturity on December 20, 2019. The amount of Php1,000 million was partially drawn on December 20, 2012 and the remaining balance was subsequently drawn on March 15, 2013. The amounts of Php3,000 million and Php1,000 million remained outstanding as at September 30, 2013 and December 31, 2012, respectively.

## Secured Term Loans

#### Php150 Million Term Loan Facility

On June 7, 2007, AGS obtained a Php150 million medium term loan facility agreement with BPI, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. AGS is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. AGS and the bank has agreed to the following terms: (a) pledge of AGS's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of AGS. The outstanding principal balance of the loan amounting to Php49 million as at January 1, 2012 was paid in full on June 30, 2012.

# Notes Payable

#### Vendor Financing

On January 5, 2006, DMPI issued a US\$1.3 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on February 22, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on February 22, 2012.

On January 5, 2006, DMPI issued a US\$1.2 million Promissory Note in relation to the Purchase Agreement between DMPI and Ceragon Networks Ltd., dated December 1, 2005, as payment for the financeable portion of the Contract Price. The Promissory Note is payable in ten consecutive semi-annual installments, with final installment on June 28, 2012. The outstanding balance amounting to US\$0.1 million, or Php5 million, as at January 1, 2012 was paid in full on June 28, 2012.

The aggregate outstanding balance of trust receipts amounted to Php1,562 million as at January 1, 2012. The trust receipts of DMPI and DTPI have been fully paid as at December 31, 2012.

On April 1, 2011, SPi availed US\$9 million and US\$16 million short-term loans from BPI and Security Bank, respectively. The additional loan US\$10 million was availed last October 28, 2011 from Security Bank. Proceeds of the loans were used for working capital requirements. Interest rate on each loan is repriced every month with final installment on December 18, 2012. The loans were prepaid on various dates in 2012 in the aggregate amount of US\$31.5 million. The aggregate amounts of US\$3.5 million, or Php144 million, and US\$35 million, or Php1,537 million, remained outstanding as at December 31, 2012 and January 1, 2012, respectively. The remaining balance of US\$3.5 million, or Php144 million, as at December 31, 2012 was fully paid in February 2013. The December 31, 2012 outstanding balance was presented as part of interest-bearing financial liabilities under liabilities directly associated with assets classified as held-for-sale. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

# Debt Covenants

Our 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.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 54%, 45% and 47% of PLDT's total consolidated debts as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively, were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso. See Note 27 – Financial Assets and Liabilities – Foreign Currency Exchange Risk.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) making or permitting any material change in the character of its business; (b) disposing of all or substantially all of its assets, or any significant portion thereof other than in the ordinary course of business; (c) creating any lien or security interest; (d) permitting set-off against amounts owed to PLDT; and (e) merging or consolidating with any other company except where PLDT is the surviving corporation.

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.

PLDT's debt instruments and guarantees for DMPI loans also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (f) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. Smart's loan agreements include compliance with financial tests such as consolidated debt to consolidated equity, consolidated debt to consolidated EBITDA and debt service coverage ratios. Previously, Smart was required to comply with certain consolidated debt to consolidated equity ratio under Variable Loan Agreement 2014 debt with Marubeni Corporation as original lender and under the 2014 (A) Debt under Metrobank as Facility Agent. On August 16, 2012 and September 3, 2012, the approvals to amend the covenant from "the ratio of Consolidated Debt to Consolidated Equity" to "the ratio of Consolidated Debt to Consolidated EBITDA" were obtained. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair the guarantors' ability to perform their obligations under its loan agreements.

DMPI's debt instruments contain customary and other default provisions that permit the lender to accelerate amounts due under the loans, including: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if DMPI or PLDT, as guarantor, is in default under another loan agreement; (b) failure by PLDT to comply with certain financial ratio covenants; (c) occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs DMPI's and PLDT's ability to perform its obligations under its loan agreements; (d) change of control; and (e) other typical events of default including the commencement of bankruptcy, insolvency, liquidation, or winding up proceedings by DMPI.

As at September 30, 2013, we are in compliance with all of our debt covenants.

#### **Obligations Under Finance Leases**

The consolidated future minimum payments for finance leases as at September 30, 2013 are as follows:

| Year  | (in million pesos) |
|---|--------------------|
| 2013(1)   | 3                  |
| 2014  | 6                  |
| 2015  | 5                  |
| 2016 and onwards  | 1                  |
| Total minimum finance lease payments (Note 27)                                  | 15                 |
| Less amount representing unamortized interest                                   | 2                  |
| Present value of net minimum finance lease payments (Notes 2, 3 and 27)         | 13                 |
| Less obligations under finance leases maturing within one year (Notes 9 and 27) | 6                  |
| Long-term portion of obligations under finance leases (Notes 9 and 27)          | 7                  |

<sup>(1)</sup> October 1, 2013 through December 31, 2013.

Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, ePLDT and PLDT Global have finance lease obligations in the aggregate amounts of Php15 million and Php21 million as at September 30, 2013 and December 31, 2012, respectively, while PLDT and SPi have finance lease obligations in the aggregate amounts of Php16 million as at January 1, 2012. See *Note 9 – Property, Plant and Equipment*.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume, permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

# 21. Deferred Credits and Other Noncurrent Liabilities

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|--|-----------------------|----------------------|--------------------|
|  | (Unaudited)           | (Audi                | ited)              |
|  |                       | (in million pesos)   |                    |
| Accrual of capital expenditures under long-term financing  | 18,820                | 19,203               | 20,128             |
| Provision for asset retirement obligations (Notes 3 and 9) | 2,667                 | 2,543                | 2,107              |
| Unearned revenues (Note 23)                                | 186                   | 174                  | 172                |
| Others   | 32                    | 30                   | 235                |
|  | 21,705                | 21,950               | 22,642             |

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to asset retirement obligations for the nine months ended September 30, 2013 and for the year ended December 31, 2012:

|  | 2013        | 2012      |
|--|-------------|-----------|
|  | (Unaudited) | (Audited) |
|  | (in million | i pesos)  |
| Provision for asset retirement obligations at beginning of the period    | 2,543       | 2,107     |
| Accretion expenses (Note 5)  | 112         | 146       |
| Additional liability recognized during the period (Note 28)              | 25          | 290       |
| Settlement of obligations and others                                     | (13)        | -         |
| Provision for asset retirement obligations at end of the period (Note 3) | 2,667       | 2,543     |

# 22. Accounts Payable

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|                                     | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|-------------------------------------|-----------------------|----------------------|--------------------|
|                                     | (Unaudited)           | (Audi                | ted)               |
|                                     |                       | (in million pesos)   |                    |
| Suppliers and contractors (Note 27) | 23,901                | 26,128               | 25,476             |
| Carriers (Note 27)                  | 2,003                 | 2,007                | 1,642              |
| Taxes (Note 26)                     | 1,809                 | 1,421                | 1,555              |
| Related parties (Notes 24 and 27)   | 863                   | 668                  | 626                |
| Others                              | 148                   | 227                  | 255                |
|                                     | 28,724                | 30,451               | 29,554             |

Accounts payable are non-interest bearing and are normally settled within 180 days.

For terms and conditions relating to related parties, see Note 24 - Related Party Transactions.

For explanation on the PLDT Group's credit risk management processes, see Note 27 – Financial Assets and Liabilities – Credit Risk.

## 23. Accrued Expenses and Other Current Liabilities

As at September 30, 2013, December 31, 2012 and January 1, 2012, this account consists of:

|   | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|-----------------------|----------------------|--------------------|
|   | (Unaudited)           | (As Adjusted         | d – Note 2)        |
|   |                       | (in million pesos)   |                    |
| Accrued utilities and related expenses (Notes 24 and 27)            | 35,344                | 36,800               | 28,429             |
| Accrued taxes and related expenses (Note 26)                        | 8,433                 | 8,281                | 11,817             |
| Liability from redemption of preferred shares (Notes 19, 27 and 28) | 7,961                 | 7,884                | _                  |
| Unearned revenues (Note 21)   | 7,536                 | 6,291                | 5,664              |
| Accrued employee benefits (Notes 2, 3, 24, 25 and 27)               | 6,816                 | 5,494                | 4,463              |
| Accrued interests and other related costs (Notes 20 and 27)         | 649                   | 1,174                | 1,122              |
| Mandatory tender offer option liability                             | -                     | _                    | 4,940              |
| Others  | 6,346                 | 5,700                | 1,836              |
|   | 73,085                | 71,624               | 58,271             |

Accrued utilities and related expenses pertain to cost incurred for repairs and maintenance (mostly pertaining to electricity and water consumption), selling and promotions, professional and other contracted services, rent, insurance and security services, and other operational-related expenses pending receipt of billings and statement of accounts from suppliers.

Accrued taxes and related expenses pertain to licenses, permits and other related business taxes.

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

Accrued expenses and other current liabilities are non-interest bearing and are normally settled within a year.

#### 24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties maybe individuals or corporate entities.

The PLDT Group has not recorded any impairment of receivables relating to amounts owed by related parties as at September 30, 2013 and December 31, 2012. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

The following table provides the summary of outstanding balances as at September 30, 2013, December 31, 2012 and January 1, 2012 transactions that have been entered into with related parties:

|   |  |  |                             | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|--|--|-----------------------------|-----------------------|----------------------|--------------------|
|   | Classifications  | Terms  | Conditions                  | (Unaudited)           | (Audit               | ed)                |
| Indirect investment in joint<br>ventures through PCEV:                      |  |  |                             |                       | (in million pesos)   |                    |
| Meralco   | Accrued expenses and<br>other current liabilities<br>(Note 23) | Electricity charges –<br>immediately upon receipt<br>of invoice  | Unsecured;<br>no impairment | 233                   | 266                  | 271                |
|   |  | Pole rental – 45 days upon<br>receipt of billing                 | Unsecured;<br>no impairment | 9                     | 12                   | 6                  |
| Meralco Industrial<br>Engineering<br>Services<br>Corporation, or<br>MIESCOR | Accrued expenses and<br>other current liabilities<br>(Note 23) | Outside and inside plant –<br>20 days upon receipt of<br>invoice | Unsecured;<br>no impairment | 5                     | 2                    | -                  |
| Indirect investment in<br>associate through<br>ACeS Philippines:            |  |  |                             |                       |                      |                    |
| AIL   | Accrued expenses and<br>other current liabilities<br>(Note 23) | 30 days upon receipt of<br>billing                               | Unsecured;<br>no impairment | 40                    | 43                   | 147                |

|   |  |  |                             | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|--|--|-----------------------------|-----------------------|----------------------|--------------------|
|   | Classifications  | Terms  | Conditions                  | (Unaudited)           | (Audit               | ed)                |
|   |  |  |                             |                       | (in million pesos)   |                    |
| Transactions with major<br>stockholders, directors<br>and officers: |  |  |                             |                       |                      |                    |
| Asia Link B.V., or ALBV   | Accounts payable<br>(Note 22)  | 15 days from end of quarter                                    | Unsecured;<br>no impairment | 330                   | 252                  | 234                |
| NTT World Engineering<br>Marine Corporation                         | Accrued expenses and<br>other current liabilities<br>(Note 23)                         | 1 <sup>st</sup> month of each quarter;<br>non-interest bearing | Unsecured;<br>no impairment | 31                    | 29                   | 29                 |
| JGSHI   | Accounts payable and<br>accrued expenses and<br>other current liabilities<br>(Note 23) | Immediately upon receipt of<br>invoice                         | Unsecured;<br>no impairment | 20                    | 5                    | 70                 |
| NTT Communications  | Accrued expenses and<br>other current liabilities<br>(Note 23)                         | 30 days; non-interest<br>bearing                               | Unsecured;<br>no impairment | 18                    | 18                   | 12                 |
| NTT DOCOMO  | Accrued expenses and<br>other current liabilities<br>(Note 23)                         | 30 days; non-interest<br>bearing                               | Unsecured;<br>no impairment | 9                     | 8                    | 8                  |
| NTT Worldwide<br>Telecommunications<br>Corporation                  | Accrued expenses and<br>other current liabilities<br>(Note 23)                         | 30 days; non-interest<br>bearing                               | Unsecured;<br>no impairment | 9                     | 2                    | -                  |
| Malayan Insurance Co.,<br>Inc., or Malayan                          | Accrued expenses and<br>other current liabilities<br>(Note 23)                         | Immediately upon receipt of<br>invoice                         | Unsecured;<br>no impairment | 1                     | 1                    | 1                  |
| Others:   |  |  |                             |                       |                      |                    |
| Various   | Trade and other<br>receivables (Note 16)   | 30 days upon receipt of<br>billing                             | Unsecured;<br>no impairment | 319                   | 297                  | 325                |

The following table provides the summary of transactions for the nine months ended September 30, 2013 and 2012 in relation with the table above for the transactions that have been entered into with related parties.

|  |  | 2013       | 2012     |
|--|--|------------|----------|
|  | Classifications                            | (Unai      | udited)  |
|  |  | (in millio | n pesos) |
| Indirect investment in joint ventures through PCEV:              |  |            |          |
| Meralco  | Repairs and maintenance                    | 1,943      | 2,512    |
|  | Rent                                       | 203        | 201      |
| MIESCOR  | Repairs and maintenance                    | 52         | 27       |
|  | Construction-in-progress                   | 37         | 21       |
| Republic Surety & Insurance Co., Inc. or RSIC                    | Insurance and security services            | 1          | -        |
| ndirect investment in associate through ACeS Philippines:        |  |            |          |
| AIL  | Cost of sales                              | 39         | 62       |
| Transactions with major stockholders, directors and<br>officers: |  |            |          |
| JGSHI  | Rent                                       | 118        | 75       |
|  | Communication, training and travel         | 10         | 14       |
|  | Selling and promotions                     | 4          | 5        |
|  | Repairs and maintenance                    | 2          | 2        |
|  | Professional and other contracted services | 1          | 1        |
| ALBV   | Professional and other contracted services | 212        | 258      |
| Malayan  | Insurance and security services            | 111        | 185      |
| NTT DOCOMO   | Professional and other contracted services | 54         | 38       |
| NTT World Engineering Marine Corporation                         | Repairs and maintenance                    | 24         | 11       |
| NTT Worldwide Telecommunications Corporation                     | Selling and promotions                     | 12         | 11       |
| NTT Communications   | Professional and other contracted services | 53         | 52       |
|  | Rent                                       | 9          | 8        |
| Others:  |  |            |          |
| Various  | Revenues                                   | 388        | 265      |

### a. Agreements between PLDT and certain subsidiaries with Meralco

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php1,943 million and Php2,512 million for the nine months ended September 30, 2013 and 2012, respectively. Under these agreements, the outstanding utilities payable, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php233 million, Php266 million and Php271 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php203 million and Php201 million for the nine months ended September 30, 2013 and 2012, respectively. Under these agreements, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million, Php12 million and Php6 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

See also Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in Beacon – Beacon's Acquisition of Additional Meralco Shares for additional transactions involving Meralco.

# b. Agreements between PLDT and MIESCOR

PLDT has an existing Outside and Inside Plant Contracted Services Agreement with MIESCOR, a subsidiary of Meralco, covering the periods from November 25, 2011 until December 31, 2014, renewable upon mutual agreement by both parties. Under the agreement, MIESCOR assumes full and overall responsibility for the implementation and completion of any assigned project such as cable works, civil and electrical engineering works and subscriber line installation and maintenance that are required for the provisioning and restoration of lines and recovery of existing plant.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php21 million and Php8 million for the nine months ended September 30, 2013 and 2012, respectively. Total amount capitalized to property, plant and equipment amounted to Php2 million and Php4 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php5 million and Php2 million as at September 30, 2013 and December 31, 2012, respectively.

PLDT also has an existing agreement with MIESCOR for the provision of work for outside plant rehabilitation and related activities. Under the agreement, MIESCOR is responsible for the preventive and corrective maintenance of cables and cabinets in the areas awarded to them. The original contract covers the period from January 1, 2011 up to December 31, 2012, however, both parties mutually agreed to an extension until March 31, 2014.

Total fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php31 million and Php19 million for the nine months ended September 30, 2013 and 2012, respectively. Total amount capitalized to property, plant and equipment amounted to Php35 million and Php17 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to nil as at September 30, 2013, December 31, 2012 and January 1, 2012.

#### c. Transactions with RSIC

In 2012, PLDT has insurance policies with RSIC, a wholly-owned subsidiary of Meralco, covering material damages for buildings, building improvements and equipment. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php1 million and nil for the nine months ended September 30, 2013 and 2012, respectively. There were no outstanding obligations for these transaction as at September 30, 2013, December 31, 2012 and January 1, 2012.

#### d. Air Time Purchase Agreement between PLDT and AIL and Related Agreements

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998, or Original ATPA, PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US\$5 million worth of air time, or Minimum Air Time Purchase Obligation, annually over ten years commencing on January 1, 2002, or Minimum Purchase Period, the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US\$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US\$15 million per year during the Minimum Purchase Period, or Supplemental Air Time Purchase Obligation.

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks, or Amended ATPA. Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT to purchase from AIL a minimum of US\$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA, which was presented as part of cost of sales in our consolidated income statements, amounted to Php39 million and Php62 million for the nine months ended September 30, 2013 and 2012, respectively. Under the Amended ATPA, the outstanding obligations of PLDT, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php40 million, Php43 million and Php147 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note* 5 – *Income and Expenses* – *Cost of Sales*.

# e. Transactions with Major Stockholders, Directors and Officers

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest as at September 30, 2013, December 31, 2012 and January 1, 2012 and for the nine months ended September 30, 2013 and 2012 are as follows:

# 1. Agreement between Smart and ALBV

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group and its Philippine affiliates. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which expired on February 23, 2012 was renewed until February 23, 2016 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to a rate of 0.5% of the consolidated net revenues of Smart. Total service fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php212 million and Php258 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations, which was presented as part of accounts payable in our consolidated statements of financial position, amounted to Php330 million, Php252 million and Php234 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

### 2. Other Agreements with NTT Communications and/or its Affiliates

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- Service Agreement. On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant. The fees under this agreement, which was presented as part of repairs and maintenance in our consolidated income statements, amounted to Php24 million and Php11 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php31 million as at September 30, 2013 and Php29 million each as at December 31, 2012 and January 1, 2012;
- Advisory Services Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000. The fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php53 million and Php52 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php12 million, Php17 million and Php12 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively;
- Conventional International Telecommunications Services Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses. The fees under this agreement, which was presented as part of rent in our consolidated income statements, amounted to Php9 million and Php8 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php6 million, Php1 million and nil as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively; and

Arcstar Licensing Agreement and Arcstar Service Provider Agreement. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines. The fees under this agreement, which was presented as part of selling and promotions in our consolidated income statements, amounted to Php12 million and Php11 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million, Php2 million and nil as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

# 3. Transactions with JGSHI and Subsidiaries

PLDT and certain of its subsidiaries have existing agreements with Universal Robina Corporation and Robinsons Land Corporation for office and business office rental. Total fees under these contracts, which was presented as part of rent in our consolidated income statements, amounted to Php118 million and Php75 million for the nine months ended September 30, 2013 and 2012, respectively. Under these agreements, the outstanding obligations, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php19 million, Php4 million and Php67 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

There were also other transactions such as airfaire, electricity, marketing expenses and bank fees, which was presented as part of communication, training and travel, selling and promotions, repair and maintenance and professional and other contracted services, totaling to Php17 million and Php22 million for the nine months ended September 30, 2013 and 2012, respectively. The outstanding obligations for these transactions, which was presented as part of accounts payable and accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php1 million each as at September 30, 2013 and December 31, 2012 and Php3 million as at January 1, 2012.

# 4. Advisory Service Agreement between NTT DOCOMO and PLDT

An Advisory Services Agreement was entered into by NTT DOCOMO and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DOCOMO will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement, which was presented as part of professional and other contracted services in our consolidated income statements, amounted to Php54 million and Php38 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations of PLDT, which was presented as part of accrued expenses and other current liabilities in our consolidated statements of financial position, amounted to Php9 million as at September 30, 2013 and Php8 million each as at December 31, 2012 and January 1, 2012.

# 5. Transactions with Malayan

PLDT and certain of its subsidiaries have insurance policies with Malayan covering directors, officers, employees liability and material damages for buildings, building improvements, equipment and motor vehicles. The premiums are directly paid to Malayan. Total fees under these contracts, which was presented as part of insurance and security services in our consolidated income statements, amounted to Php111 million and Php185 million for the nine months ended September 30, 2013 and 2012, respectively. Under this agreement, the outstanding obligations, which was presented as part of accrued expenses and other current liabilities in our consolidated statement of financial position, amounted to Php1 million each as at September 30, 2013, December 31, 2012 and January 1, 2012. One director of PLDT has direct/indirect interests in or serves as a director/officer of Malayan as at September 30, 2013, December 31, 2012 and January 1, 2012.

6. Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DOCOMO

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DOCOMO pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DOCOMO, the FP Parties, NTT Communications and NTT DOCOMO entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DOCOMO, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DOCOMO. Each of NTT Communications and NTT DOCOMO has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- Limitation on Competition. NTT Communications, NTT DOCOMO and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DOCOMO with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.
- Business Cooperation. PLDT and NTT DOCOMO agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DOCOMO.
- Additional Rights of NTT DOCOMO. Pursuant to amendments effected by the Cooperation Agreement to the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, upon NTT Communications and NTT DOCOMO and their respective subsidiaries owning in the aggregate 20% or more of PLDT's shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT's shares of common stock then outstanding, NTT DOCOMO has additional rights under the Stock Purchase and Strategic Investment Agreement and Shareholders Agreement, including that:
  - 1. NTT DOCOMO is entitled to nominate one additional NTT DOCOMO nominee to the Board of Directors of each PLDT and Smart;
  - 2. PLDT must consult NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DOCOMO, or which NTT DOCOMO has announced publicly an intention to carry on;

- 3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and
- 4. PLDT must first consult with NTT DOCOMO no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

NTT Communications and NTT DOCOMO together beneficially owned approximately 20% of PLDT's outstanding common stock as at September 30, 2013, December 31, 2012 and January 1, 2012.

- Change in Control. Each of NTT Communications, NTT DOCOMO and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A "Hostile Transferee" is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DOCOMO, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed: or (e) whose intention is otherwise not bona fide; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DOCOMO in good faith whether such person should be considered a Hostile Transferee.
- Termination. If NTT Communications, NTT DOCOMO or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

# f. Others

a. Telecommunications services provided by PLDT and certain of its subsidiaries to various related parties

PLDT and certain of its subsidiaries provide telephone and data communication services to various related parties at arm's length similar to transactions with other customers. The revenues under these services amounted to Php388 million and Php265 million for the nine months ended September 30, 2013 and 2012, respectively. The outstanding receivables of PLDT and certain of its subsidiaries, which was presented as part of trade and other receivables in our consolidated statements of financial position, from these services amounted to Php319 million, Php297 million and Php325 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest and Note 18 – Prepayments – Agreement between PLDT and Smart with TV5 for other related party transactions.

# Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the nine months ended September 30, 2013 and 2012 are as follows:

|   | 2013        | 2012     |
|---|-------------|----------|
|   | (Unau       | dited)   |
|   | (in millior | n pesos) |
| Short-term employee benefits                              | 589         | 517      |
| Post-employment benefits (Note 25)                        | 23          | 20       |
| Other long-term employee benefits (Note 25)               | 320         | 278      |
| Total compensation paid to key officers of the PLDT Group | 932         | 815      |

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php200 thousand for each board meeting attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php75 thousand for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

The amounts disclosed in the table are the amounts recognized as expenses during the reporting period related to key management personnel.

#### 25. Employee Benefits

### Pension

### Defined Benefit Pension Plans

We have defined benefit pension plans, operating under the legal name "The Board of Trustees for the account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT Company" and covering substantially all of our permanent and regular employees, excluding those employees of Smart and certain subsidiaries, which require contributions to be made to a separate administrative fund.

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation as at September 30, 2013 and December 31, 2012 are as follows:

|   | September 30,<br>2013 | December 31<br>2012     |  |
|---|-----------------------|-------------------------|--|
|   | (Unaudited)           | (As Adjusted<br>Note 2) |  |
|   | (in millior           | n pesos)                |  |
| Changes in present value of defined benefit obligations:              |                       |                         |  |
| Present value of defined benefit obligations at beginning of the year | 17,456                | 15,662                  |  |
| Interest costs on benefit obligation                                  | 718                   | 980                     |  |
| Service costs   | 690                   | 869                     |  |
| Actual benefits paid/settlements                                      | (1,288)               | (1,985)                 |  |
| Curtailments/settlement gain and other adjustments                    | (65)                  | -                       |  |
| Actuarial losses (gains) on obligations                               | · -                   | 2,100                   |  |
| Discontinued operations and others                                    | -                     | (170)                   |  |
| Present value of defined benefit obligations                          | 17,511                | 17,456                  |  |
|   |                       |                         |  |
| Changes in fair value of plan assets:                                 | 10,405                | 00 700                  |  |
| Fair value of plan assets at beginning of the year                    | 18,435                | 23,706                  |  |
| Actual contributions  | 2,029                 | 2,012                   |  |
| Interest income on plan assets  | 715                   | 1,482                   |  |
| Actual benefits paid/settlements                                      | (1,288)               | (1,957)                 |  |
| Discontinued operations and others                                    | -                     | (23)                    |  |
| Actual losses on plan assets  | -                     | (6,785)                 |  |
| Fair value of plan assets   | 19,891                | 18,435                  |  |
| Surplus status – net  | 2,380                 | 979                     |  |
| Accrued benefit costs (Note 3)  | 517                   | 492                     |  |
| Prepaid benefit costs (Notes 3 and 18)                                | 2,897                 | 1,471                   |  |

Net pension benefit costs for the nine months ended September 30, 2013 and 2012 were computed as follows:

|   | 2013        | 2012                     |
|---|-------------|--------------------------|
|   |             | (Unaudited and           |
|   | (Unaudited) | as Adjusted –<br>Note 2) |
|   |             | on pesos)                |
| Components of net pension benefit costs:  |             |                          |
| Current service costs                     | 690         | 658                      |
| Interest costs (income)                   | 3           | (357)                    |
| Curtailment/settlement gain               | (60)        | _                        |
| Net periodic benefit cost (Notes 3 and 5) | 633         | 301                      |

There was no expected significant contribution for the next reporting period.

The following table sets forth the expected future payments as at September 30, 2013:

|              | (in million pesos) |
|--------------|--------------------|
| 2014         | 221                |
| 2015         | 203                |
| 2016         | 321                |
| 2017         | 487                |
| 2018 to 2022 | 5,495              |

The weighted average assumptions used to determine pension benefits as at September 30, 2013 are as follows:

| Average remaining working years of covered employee | 19 |
|---|----|
| Rate of increase in compensation                    | 6% |
| Discount rate                                       | 5% |

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the end of the reporting period, assuming if all other asumptions were held constant:

|                         |            | September 30, 2013<br>Increase (Decrease) |  |  |
|-------------------------|------------|---|--|--|
| Discount rate           | 1%<br>(1%) | (in millions)<br>(Php2,112)<br>2,507      |  |  |
| Future salary increases | 1%<br>(1%) | 2,469<br>(2,122)                          |  |  |

PLDT's Retirement Plan

The Board of Trustees performed an asset-liability matching study of our retirement plan. The Board of Trustees, which manages the beneficial trust fund, is composed of: (1) a member of the Board of Directors of PLDT, who is not a beneficiary of the Plan; (ii) a member of the Board of Directors or a senior officer of PLDT, who is a beneficiary of the Plan; (iii) a senior member of the executive staff of PLDT; and (iv) two persons who are not executives or employees of PLDT.

Benefits are payable in the event of termination of employment due to: (i) compulsory, optional, or deferred retirement; (ii) death while in active service; (iii) physical disability; (iv) voluntary resignation; or (v) involuntary separation from service. For a plan member with less than 15 years of credited services, retirement benefit is equal to 100% of final compensation for every year of service. For those with at least 15 years of service, retirement benefit is equal to 125% of final compensation for every year of service in excess of 15 years, but not to exceed a maximum of 200%. In case of voluntary resignation after attainment of age 40 and completion of at least 15 years of credited service, benefit is equal to a percentage of his vested retirement benefit, in accordance with percentages prescribed in the retirement plan.

The Board of Trustees of the beneficial trust fund uses an investment approach with the objective of maximizing the long-term expected return of plan assets. The majority of investment portfolio consists of listed and unlisted equity securities while the remaining portion consists of passive investments like temporary cash investments and fixed income investments.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk.

Liquidity risk pertains to the plan's ability to meet its obligation to the employees upon retirement. To effectively manage liquidity risk, the Board of Trustees invests at least the equivalent amount of actuarially computed expected compulsory retirement benefit payments for the year to liquid/semi-liquid assets such as treasury notes, treasury bills, savings and time deposits with commercial banks.

Price risk pertains mainly to fluctuations in market prices of equity securities listed in the Philippine SEC. In order to effectively manage price risk, the Board of Trustees continuously assesses these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

For the nine months ended September 30, 2013, PLDT contributed a total of Php2,029 million to the beneficial trust fund.

The following table sets forth the fair values, which are equal to the carrying values, of PLDT's plan assets recognized as at September 30, 2013 and December 31, 2012:

|                                   | 2013        | 2012      |  |
|-----------------------------------|-------------|-----------|--|
|                                   | (Unaudited) | (Audited) |  |
|                                   | (in millior | n pesos)  |  |
| Noncurrent Financial Assets       |             |           |  |
| Investments in:                   |             |           |  |
| Unlisted equity investments       | 11,521      | 14,930    |  |
| Shares of stock                   | 2,791       | 3,056     |  |
| Mutual funds                      | 61          | 120       |  |
| Government securities             | 43          | 48        |  |
| Investment properties             | 8           | 8         |  |
| Total noncurrent financial assets | 14,424      | 18,162    |  |
| Current Financial Assets          |             |           |  |
| Cash and cash equivalents         | 341         | 181       |  |
| Receivables                       | 7           | 3         |  |
| Total current financial assets    | 348         | 184       |  |
| Total PLDT's Plan Assets          | 14,772      | 18,346    |  |

Investment in shares of stocks is valued using the latest bid price at reporting date. Investments in mutual funds and government securities are valued using the market values at reporting date. Investment properties are valued using the latest available appraised values. The fair values of these investments can be classified as Level 1 instruments based on the definitions in *PFRS 13*. Investment in unlisted equity investments are valued using discounted cash flow analysis and can be classified as Level 3.

# Unlisted Equity Investments

As at September 30, 2013 and December 31, 2012, this account consists of:

|   | % of Ownership |           | Amou        | nts       |
|---|----------------|-----------|-------------|-----------|
|   | 2013           | 2012      | 2013        | 2012      |
|   | (Unaudited)    | (Audited) | (Unaudited) | (Audited) |
|   |                |           | (in million | pesos)    |
| MediaQuest  | 100%           | 100%      | 11,030      | 14,468    |
| Tahanan Mutual Building and Loan Association, or      |                |           |             |           |
| TMBLA (net of subscriptions payable of Php32 million) | 100%           | 100%      | 291         | 271       |
| BTF Holdings, Inc., or BTFHI                          | 100%           | 100%      | 160         | 152       |
| Superior Multi Parañague Homes, Inc., or SMPHI        | 100%           | 100%      | 39          | 38        |
| Bancholders, Inc., or Bancholders                     | 100%           | 100%      | 1           | 1         |
| Superior Parañaque Homes, Inc., or SPHI               | 100%           | 100%      | -           | -         |
|   |                |           | 11,521      | 14,930    |

# Investment in MediaQuest

MediaQuest was registered with the Philippine SEC on June 29, 1999 primarily to purchase, subscribe for or otherwise acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property or every kind and description, and to pay thereof in whole or in part, in cash or by exchanging, stocks, bonds and other evidences of indebtedness or securities of this any other corporation. Its investments include common shares of stocks of various communication, broadcasting and media entities.

The Board of Trustees of the Beneficial Trust Fund approved to make additional investments in MediaQuest amounting to Php750 million each on November 5, 2012 and January 25, 2013 to fund the latter's operational and capital expenditure requirements. Subsequently, on March 1, 2013, the Board of Directors of MediaQuest approved its application of the additional investment to additional paid in capital on the existing subscribed shares of stock.

On May 8, 2012, the Board of Trustees of the Beneficial Trust Fund approved the issuance by MediaQuest of PDRs amounting to Php6 billion. The underlying shares of these PDRs are the shares of stocks of Cignal TV held by MediaQuest (Cignal TV PDRs). On the same date, MediaQuest Board of Directors approved the investment in Cignal TV PDRs by ePLDT, which will give ePLDT a 40% economic interest in Cignal TV. In June 2012, MediaQuest received a deposit for future PDRs subscription of Php4 billion from ePLDT. Additional deposits of Php1 billion each were received on July 6, 2012 and August 9, 2012. The Cignal TV PDRs were subsequently issued on September 27, 2013.

On January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the MediaQuest Board of Directors approved the issuance of additional MediaQuest PDRs amounting to Php3.6 billion. The underlying shares of these additional PDRs are the shares of stocks of Satventures held by MediaQuest (Satventures PDRs), the holder of which will have a 40% economic interest in Satventures. Satventures is a wholly-owned subsidiary of MediaQuest and the investment vehicle for Cignal TV. From March to August 2013, MediaQuest received from ePLDT an amount aggregating to Php3.6 billion representing deposits for future PDRs subscription. The Satventures PDRs were subsequently issed on September 27, 2013.

Also, on January 25, 2013, the Board of Trustees of the Beneficial Trust Fund and the Board of Directors of MediaQuest approved the issuance of additional PDRs amounting to Php1.95 billion. The underlying shares of these additional PDRs are the shares of stocks of Hastings held by MediaQuest (Hastings PDRs), the holder of which will have a 100% economic interest in Hastings. Hastings is a wholly-owned subsidiary of MediaQuest, which holds all the print-related investments of MediaQuest, including noncontrolling interests in the three leading broadsheets: The Philippine Star, the Philippine Daily Inquirer, and Business World. From August to October 2013, MediaQuest received from ePLDT an amount aggregating to Php750 million representing deposits for future PDRs subscription. See Note 10 – Investments in Associates, Joint Ventures and Deposits – Investment in MediaQuest.

As at November 5, 2013, the Hastings PDRs have not yet been issued.

Investment in TMBLA

TMBLA was incorporated for the primary purpose of accumulating the savings of its stockholders and lending funds to them for housing programs. The beneficial trust fund has a direct subscription in shares of stocks of TMBLA in the amount of Php112 million. The related unpaid subscription of Php32 million is included in "unlisted equity investments, deposits on future stock subscriptions and advances" in the total financial assets table. The cumulative change in the fair market value of this investment amounted to Php211 million and Php191 million as at September 30, 2013 and December 31, 2012, respectively.

Investment in BTFHI

BTFHI was incorporated for the primary purpose of acquiring voting preferred shares in PLDT and while the owner, holder of possessor thereof, to exercise all the rights, powers, and privileges of ownership or any other interest therein.

On October 26, 2012, BTFHI subscribed to a total of 150 million shares of Voting Preferred Stock of PLDT at a subscription price of Php1.00 per share for a total subscription price of Php150 million. Dividend receivable amounted to Php2 million each as at September 30, 2013 and December 31, 2012.

### Investment in Shares of Stocks

As at September 30, 2013 and December 31, 2012, this account consists of:

|                  | 2013        | 2012               |  |  |
|------------------|-------------|--------------------|--|--|
|                  | (Unaudited) | (Audited)          |  |  |
|                  | (in millior | (in million pesos) |  |  |
| Common shares    | 2,431       | 2,696              |  |  |
| Preferred shares | 360         | 360                |  |  |
|                  | 2,791       | 3.056              |  |  |

Common shares pertain to shares listed in the PSE with fair value of Php2,431 million, which include shares of PSE with fair value of Php1,994 million, shares of PLDT with fair value of Php79 million and other shares with fair value of Php358 million as at September 30, 2013. Total gain from investment in shares of PLDT for the nine months ended September 30, 2013 amounted to Php17 million comprising of Php5 million in dividend income and Php12 million unrealized gain from increase in market value of investment.

Common shares pertain to shares listed in the PSE with fair value of Php2,696 million, which include shares of PSE with fair value of Php2,286 million, shares of PLDT with fair value of Php67 million and other shares with fair value of Php343 million as at December 31, 2012. Total gain from investment in shares of PLDT for the year ended December 31, 2012 amounted to Php5 million comprising of Php5 million in dividend income and Php159 thousand unrealized gain from increase in market value of investment.

Preferred shares represent 300 million shares of preferred shares of PLDT at Php10 par value as at September 30, 2013 and December 31, 2012, net of subscription payable of Php2,640 million. These shares, which bear dividend of 13.5% per annum based on the paid-up subscription price, are cumulative, non-convertible and redeemable at par value at the option of PLDT. Dividend earned on this investment amounted to Php37 million for each of the nine months ended September 30, 2013 and 2012.

# Mutual Funds

Investment in mutual funds include various U.S. dollar and Euro denominated equity and fixed income funds, which aims to out-perform benchmarks in various international indices as part of its investment strategy.

#### **Government Securities**

Investment in government securities include treasury bills and fixed-term treasury notes bearing interest ranging from 5.88% to 7%. These securities are fully guaranteed by the government of the Republic of the Philippines.

# Investment Properties

Investment properties include two condominium units (bare, separate 127 and 58 square meter units) located in Ayala-FGU Building along Alabang-Zapote Road in Muntinlupa City.

The allocation of the fair value of the assets for the PLDT pension plan as at September 30, 2013 and December 31, 2012 are as follows:

|  | 2013        | 2012      |  |
|--|-------------|-----------|--|
|  | (Unaudited) | (Audited) |  |
| Investments in listed and unlisted equity securities | 97%         | 98%       |  |
| Temporary cash investments                           | 3%          | 1%        |  |
| Investments in mutual funds                          | -           | 1%        |  |
|  | 100%        | 100%      |  |

#### Defined Contribution Plan

#### Smart's Retirement Plan

Smart and certain of its subsidiaries contributions to the plan are made based on the employees' years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and certain of its subsidiaries regularly monitor compliance with R.A. 7641. As at September 30, 2013 and December 31, 2012, Smart and certain of its subsidiaries were in compliance with the requirements of R.A. 7641.

The fund is being managed and invested by BPI Asset Management and Trust Group, as Trustee, pursuant to an amended trust agreement dated February 21, 2012.

The plan's investment portfolio seeks to achieve regular income, long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the Trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The following table sets forth the fair values, which are equal to the carrying values, of Smart's plan assets recognized as at September 30, 2013 and December 31, 2012:

|                                   | 2013        | 2012      |
|-----------------------------------|-------------|-----------|
|                                   | (Unaudited) | (Audited) |
|                                   | (in millior | n pesos)  |
| Noncurrent Financial Assets       |             |           |
| Investments in <sup>(1)</sup> :   |             |           |
| Domestic fixed income             | 1,138       | 1,280     |
| Domestic equities                 | 356         | 513       |
| International equities            | 323         | 350       |
| International fixed income        | -           | 175       |
| Total noncurrent financial assets | 1,817       | 2,318     |
| Current Financial Assets          |             |           |
| Cash and cash equivalents         | 583         | 12        |
| Receivables                       | 6           | 15        |
| Total current financial assets    | 589         | 27        |
| Total Financial Assets            | 2,406       | 2 345     |

(1) Carrying value includes accumulated equity on investees.

### Investment in Domestic Fixed Income

Investments in domestic fixed income include Philippine peso denominated bonds, such as government securities, corporate bonds and notes, special savings, debt securities and other deposit products of the banks. The investments under this category earned between 6.4% and 9.13% interest for the nine months ended September 30, 2013 and between 6.2% to 9.1% interest in 2012.

## Investment in Domestic Equity

Investments in domestic equities include common shares and convertible preferred shares listed in the PSE. These investments earn on stock price appreciation and dividend payments.

## Investment in International Equity

This category consists of international mutual funds being managed by ING International.

# Investment in International Fixed Income

Investments in international fixed income include foreign currency denominated bonds, such as mutual funds and unit investment trust funds. The Philippine sovereign debt, the only interest-bearing investment in this category, earned zero interest for the nine months ended September 30, 2013 and 5% interest in 2012.

## Cash and Cash Equivalents

This pertains to the fund's excess liquidity in Philippine peso and U.S. dollars including time deposits and mutual funds and other deposit products of banks with tenor of less than one year.

The allocation of the fair value of Smart and certain of its subsidiaries pension plan assets as at September 30, 2013 and December 31, 2012 is as follows:

|  | 2013        | 2012      |
|--|-------------|-----------|
|  | (Unaudited) | (Audited) |
| Investments in debt and fixed income securities      | 47%         | 56%       |
| Investments in listed and unlisted equity securities | 29%         | 37%       |
| Others   | 24%         | 7%        |
|  | 100%        | 100%      |

Smart and certain of its subsidiaries contributed Php151 million to the fund in 2012. Approximately Php208 million are expected to be contributed to the fund in 2013.

Pension Benefit Costs

Net consolidated pension benefit costs (income) for the nine months ended September 30, 2013 and 2012 are as follows:

|   | 2013        | 2012                                       |
|---|-------------|--|
|   | (Unaudited) | (Unaudited and<br>as Adjusted –<br>Note 2) |
|   |             | n pesos)                                   |
| Expense recognized for defined benefit plans                                    | 568         | 431  |
| Expense recognized for defined contribution plans                               | 151         | 120  |
| Total expense recognized for consolidated pension benefit costs (Notes 3 and 5) | 719         | 551  |
| Income recognized for consolidated pension benefit costs                        | 74          | 12   |
| Expense from discontinued operations  | (9)         | (142)                                      |
| Net consolidated pension benefit costs (Note 3)                                 | 784         | 421  |

### Other Long-term Employee Benefits

To ensure the proper execution of our strategic and operational business plans while taking into account the acquisition of Digitel in 2011 and other recent market developments, the 2012 to 2014 LTIP, covering the period from January 1, 2012 to December 31, 2014, was approved by the Board of Directors with the endorsement of the ECC on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, intended to align the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the new LTIP allows for the participation of a number of senior executives and certain newly hired executives and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs recognized for the nine months ended September 30, 2013 and 2012 amounted to Php1,167 million and Php1,185 million, respectively. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,657 million and Php1,491 million as at September 30, 2013 and December 31, 2012, respectively. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Estimating Pension Benefit Costs and Other Employee Benefits and Note 5 – Income and Expenses – Compensation and Employee Benefits.

Net periodic benefit costs computed for the nine months ended September 30, 2013 and 2012 are as follows:

|   | 2013       | 2012     |
|---|------------|----------|
|   | (Unau      | idited)  |
|   | (in millio | n pesos) |
| Components of net periodic benefit costs: |            |          |
| Current service costs                     | 1,099      | 1,159    |
| Interest costs                            | 34         | 13       |
| Net actuarial loss                        | 34         | 13       |
| Net periodic benefit costs (Note 3)       | 1,167      | 1,185    |

## 26. Provisions and Contingencies

Supervision and Regulatory Fees, or SRF, due to the NTC

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, pursuant to Section 40 of Commonwealth Act No. 146, otherwise known as the Public Service Act, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's position, which was upheld by the Court of Appeals, but, as set forth below, was rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on the actual amount paid (inclusive of premiums) for the "capital stock subscribed or paid" and not on par or market value. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees. the NTC used as basis not only capital stock subscribed or paid, but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing its assessment until the resolution of the issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion based on stock dividends.

In a resolution promulgated on December 4, 2007, the Supreme Court upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, or the Assessment Letter, the NTC assessed the total amount of SRF on stock dividends due from PLDT to be Php2,870 million, which assessment included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million, which included penalties. In letters dated April 14, 2008 and June 18, 2008, or the Demand Letters, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals, or the PLDT Petition, praying that the NTC be restrained from enforcing or implementing its Assessment Letter and Demand Letters, all demanding payment of SRF including penalties and interests. The PLDT Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the Assessment Letter and Demand Letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's Assessment Letter and Demand Letters. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals but instead filed a Petition for Review, or the NTC Petition, directly with the Supreme Court. PLDT received a copy of the NTC Petition on July 29, 2010, and after receiving the order of the Supreme Court, filed its comment on the NTC Petition on December 7, 2010. The NTC filed a Reply dated August 26, 2011 and PLDT filed a Rejoinder on October 12, 2011.

On January 30, 2013, the Supreme Court's Third Division issued a resolution denying the NTC Petition for failure to show any reversible error in the challenged judgment as to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction. The Supreme Court resolution affirms the decision of the Court of Appeals, which declared that the NTC erred in imposing/assessing penalties and interest on the SRF payment of PLDT for the period 1987-2007, and annulled and set aside the Assessment Letter and Demand Letters. On April 10, 2013, the NTC filed a Motion for Reconsideration of the decision of the Supreme Court. PLDT received the Motion for Reconsideration on April 15, 2013 and filed its Comment/Opposition on May 15, 2013.

On June 26, 2013, the Supreme Court issued a resolution denying with finality the Motion for Reconsideration of the NTC. PLDT received the Supreme Court's resolution on August 6, 2013, which serves as the termination of the case.

# PLDT's Local Business and Franchise Tax Assessments

Pursuant to a decision of the Supreme Court on March 25, 2003 in the case of *PLDT vs. City of Davao* declaring PLDT not exempt from the local franchise tax, PLDT started paying local franchise tax to various local government units. PLDT has paid a total amount of Php1,152 million as at September 30, 2013 for local franchise tax covering prior periods up to September 30, 2013.

As at September 30, 2013, PLDT has no contested local government unit, or LGU, assessments for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. Its Motion for Reconsideration having been denied by the court in its Order dated March 2, 2009, the City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT filed a motion to dismiss on the said appeal on the ground of lack of jurisdiction as the appeal should have been filed before the Court of Tax Appeals, or CTA. In a resolution dated February 9, 2012, the Court of Appeals dismissed the case for failure of the City of Tuguegarao and its Treasurer to file their Appellants' Brief. PLDT also contested the imposition of local business tax in addition to local franchise tax also by the City of Tuguegarao in the amount of Php2.3 million for the years 2006 to 2011. PLDT filed a Petition with the RTC of the City of Makati on July 8, 2011. The City of Tuguegarao filed its Answer with Motion to Dismiss claiming that the RTC of the City of Makati does not have jurisdiction over the case. Both parties have filed their respective Memorandum on the issue of Jurisdiction. A judicial dispute resolution, or JDR, conference was set by the court after the parties failed to settle the case in the mediation proceedings. Due to the failure of the City of Tuguegarao to appear on the JDR conference last May 15, 2012, the court transmitted the case to the Office of the Clerk of Court of the City of Makati for re-raffling in accordance with the JDR guidelines. The case was raffled to Branch 132 of Makati City and a Pre-Trial Conference, which was scheduled on October 19, 2012, was postponed by the court due to the Motion for Resolution on the previously filed Motion to Dismiss by Tuguegarao City on the ground of lack of jurisdiction. In an order dated October 12, 2012, the court granted the Motion to Dismiss for lack of jurisdiction. PLDT filed a Motion for Reconsideration while the City of Tuguegarao has filed its corresponding Comment. In a Resolution dated January 18, 2013, the court denied the Motion for Reconsideration filed by PLDT. On March 8, 2013, PLDT filed a Petition for Review on the said dismissal of the case before the CTA. Acting on the Petition for Review

filed by PLDT, the Second Division of the CTA issued a Resolution dated March 13, 2013 ordering the Respondents City of Tuguegarao and City Treasurer to file their Comment on the Petition for Review filed by PLDT. In a Resolution dated July 2, 2013 and received on July 12, 2013, the CTA ordered both parties to submit its respective Memorandum. PLDT has already submitted its Memorandum together with its Motion to Admit Memorandum and submit case for Resolution after Respondent City of Tuguegarao and City Treasurer failed to file their Comment on the Petition for Review filed by PLDT.

### Smart's Local Business and Franchise Tax Assessments

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of the City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In August 2009, the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued deficiency local tax assessments, which Smart protested. On August 3, 2010, the City of Makati issued a Notice of Distraint and Levy. Smart filed on September 1, 2010 an Appeal before the RTC of the City of Makati. After several hearings, Smart and the City of Makati entered into a compromise agreement which was submitted to the court for judgment. On January 20, 2012, the RTC of the City of Makati issued its Judgment finding the compromise agreement meritorious and ordered both parties to comply with the terms and conditions of the agreement. With the compliance to the terms and conditions, the audit of Smart's local tax liabilities by the City of Makati was terminated.

In the cases of *Smart Communications, Inc. vs. City of Davao* (July 21, 2009) and *City of Iloilo vs. Smart Communications* (July 1, 2009), the Supreme Court held that Smart is liable to pay the local franchise tax to the City of Davao and City of Iloilo. Several cities and provinces have begun discussions with Smart on the settlement of alleged local franchise tax with their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the decisions on the Cities of Iloilo and Davao and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

Meanwhile, the Province of Cagayan also issued tax assessment for alleged local franchise tax. On January 24, 2011, Smart filed a Petition before the RTC of the City of Makati, appealing the assessment on the ground that Smart cannot be held liable for local franchise tax mainly because it has no sales office within the Province of Cagayan pursuant to Section 137 of the Local Government Code (Republic Act No. 7160, or R.A. 7160). The RTC of the City of Makati issued a temporary restraining order on October 21, 2011, and the writ of preliminary injunction on November 14, 2011. On April 30, 2012, the RTC rendered a decision giving the petition due course and the assailed tax assessment nullified and set aside. The Province of Cagayan was directed to cease and desist from imposing local franchise taxes on Smart's gross receipts. The Province of Cagayan then filed a Petition for Review before the Court of Tax Appeals in the City of Quezon on June 19, 2012, appealing the RTC Decision dated April 30, 2012. In a Decision promulgated on July 25, 2013, the Court of Tax Appeals ruled that the franchise tax assessment made by the Province of Cagayan against Smart for 2004 to 2009 based on "presumptive tax" is null and void for lack of legal and factual justifications.

# Smart's Real Property Tax Assessment

In Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

On August 16, 2010, the Court of Appeals issued an Entry of Judgment confirming that the November 26, 2008 Resolution had become final and executory on December 22, 2008, and it was recorded in the book of Entries of Judgments.

# PCEV's Local Franchise Tax Assessment

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled *"Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto"* (*PCEV vs. City of Makati*) (Civil Case No. 01-1760), the RTC of the City of Makati rendered its Decision dated December 10, 2002 declaring PCEV exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of PCEV, Republic Act. No. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the local government code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *PCEV vs. City of Makati* case.

### Digitel's Franchise Tax Assessment and Real Property Tax Assessment

In the case of *Digitel vs. Province of Pangasinan* (G.R. No. 152534, February 23, 2007), the Supreme Court held that Digitel is liable to the Province of Pangasinan for franchise tax from November 13, 1992 and real property tax only on real properties not actually, directly and exclusively used in the franchise operations from February 17, 1994. Digitel has fully settled its obligation with the Province of Pangasinan with respect to franchise tax and is currently in talks with the Province for the settlement of the real property tax. However, in the case of *Digitel vs. City Government of Batangas* (G.R. No. 156040, December 11, 2008), the Supreme Court ruled that Digitel's real properties used in its telecommunications business are subject to the real property tax. On June 16, 2009, the Supreme Court denied Digitel's Motion for Reconsideration. Digitel has already fully settled its obligation with the City Government of Batangas and in an order dated January 8, 2012, the case has been terminated by the Regional Trial Court, Branch 8 of Batangas City.

#### DMPI's Local Business and Real Property Taxes Assessments

In *DMPI vs. City of Cotabato* (Civil Case No. 2010-345, February 2010), DMPI filed a Petition for prohibition and mandamus against the City of Cotabato due to their threats to close its cell sites due to real property tax delinquencies. DMPI is awaiting confirmation from external counsel and there are still ongoing negotiations for the reassessment of the valuation of DMPI sites.

In the *DMPI vs. City of Davao* (Special Civil Case No. 33,823-11, March 2011), DMPI's Petition for Prohibition and Mandamus sought the Court's intervention due to the threats issued by the City of Davao to stop the operations of DMPI business centers in the locality due to lack of business permits. DMPI contended that the City of Davao's act of refusing to process its applications due to failure to pay real property taxes and business taxes is unwarranted, being that it is exempt under its BOI registration and prevailing laws. The case is in pre-trial stage. DMPI paid local business taxes and real property tax on tower and improvements. The City of Davao's Legal Officer issued a letter-opinion declaring DMPI's machinery as exempt from real property tax.

In the *DMPI vs. City Government of Malabon* (Special Civil Action 11-011-MN, November 2011), DMPI filed a Petition for Prohibition and Mandamus against the City of Malabon to prevent the auction sale of DMPI sites in its jurisdiction for alleged real property tax liabilities. DMPI was able to secure a Temporary Restraining Order to defer the sale. There is an ongoing mediation and the parties are exploring the possibility of settling amicably.

# DMPI's Local Tower Fee Assessments

In *DMPI vs. Municipality of San Mateo* (Special Civil Action Case No. Br. 20-542, September 2011), DMPI filed a petition for Prohibition and Mandamus with Preliminary Injunction and Temporary Restraining Order against the Tower Fee Ordinance of the Municipality of San Mateo. The parties have already submitted their respective memorandum and the case is already submitted for resolution. The RTC denied DMPI's petition. In June, 2013, DMPI filed a motion for reconsideration.

Meanwhile, in *DMPI vs. the City Government of Santiago City and the City Permits and License Inspection Office of Santiago City, Isabela* (CA-G.R. SP No. 127253) (Special Civil Action Case No. 36-0360, February 2011), the City Government of Santiago City filed an appeal with the Court of Appeals after the lower court granted DMPI's petition and ruled as unconstitutional the provision of the ordinance imposing the Php200,000 per cell site per annum. DMPI has already filed its comment to the petition.

*DMPI vs. City of Trece Martires* (Civil Case No. TMSCA-004-10, February 2010) – The Company petitioned to declare void the Trece Martires ordinance of imposing tower fee of Php150,000 for each cell site annually. Application for the issuance of a preliminary injunction by DMPI is pending resolution.

*Globe Telecoms, et al. vs. City of Lipa* (Civil Case No. 2006-0568, 2006) – Globe filed a Protest of Assessment questioning the act of the LGU in assessing tower fees for its sites amounting to Php105,000 per year. A joint Memoranda for Smart, DTPI and DMPI was submitted in June 2013 pertaining to the issue of whether the Ordinance is a regulatory or tax imposition.

### Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 (up to present), PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other), ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

# Matters Relating to the Gamboa Case and the recent Jose M. Roy III Petition

In the Gamboa Case, the Supreme Court in its decision dated June 28, 2011, or the Gamboa Case Decision, held that "the term 'capital' in Section 11, Article XII of the 1987 Constitution refers only to shares of stock entitled to vote in the election of directors and thus, in the case of PLDT, only to voting common shares, and not to the total outstanding capital stock (common and non-voting preferred shares)". The Gamboa Case Decision reversed earlier opinions issued by the Philippine SEC that non-voting preferred shares are included in the computation of the 60%-40% Filipino-alien equity requirement of certain economic activities, such as telecommunications which is a public utility under Section 11, Article XII of the 1987 Constitution. Several Motions for Reconsideration of the Gamboa Case Decision were filed by the parties. On October 18, 2012, the Gamboa Case Decision became final and executory.

While PLDT was not a party to the Gamboa Case, the Supreme Court directed the Philippine SEC in the Gamboa Case "to apply this definition of the term 'capital' in determining the extent of allowable foreign ownership in PLDT, and if there is a violation of Section 11, Article XII of the Constitution, to impose the appropriate sanctions under the law."

On July 5, 2011, the Board of Directors of PLDT approved the amendments to the Seventh Article of PLDT's Articles of Incorporation consisting of the sub-classification of its authorized preferred capital stock into preferred shares with full voting rights, or Voting Preferred Stock, and serial preferred shares without voting rights, and other conforming amendments, or the Amendments. The Amendments were approved by the stockholders of PLDT on March 22, 2012 and by the Philippine SEC on June 5, 2012.

On October 12, 2012, the Board of Directors of PLDT approved the specific rights, terms and conditions of the Voting Preferred Stock and authorized the subscription and issuance thereof to BTFHI, a Filipino corporation. On October 16, 2012, BTFHI subscribed to 150 million newly issued shares of Voting Preferred Stock, or the Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT.

On May 30, 2013, the Philippine SEC issued SEC Memorandum Circular No. 8, or the Philippine SEC Guidelines, which provides under Section 2 thereof, as follows: "All covered corporations shall, at all times, observe the constitutional or statutory ownership requirement. For purposes of compliance therewith, the required percentage of Filipino ownership shall be applied to both: (a) the total number of outstanding shares of stock entitled to vote in the election of directors; and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." PLDT was, and continues to be, compliant with the Philippine SEC Guidelines. As at end of September 30, 2013, PLDT's foreign ownership was 32.67% of its outstanding shares entitled to vote (Common and Voting Preferred Shares), and 17.95% of its total outstanding capital stock.

On June 10, 2013, PLDT was served a copy of a Petition for Certiorari under Rule 65 of the Revised Rules of Court, or the Petition, filed with the Supreme Court by Jose M. Roy III as petitioner against the Chairperson of the Philippine SEC, Teresita Herbosa, the Philippine SEC and PLDT as respondents. The Petition primarily questions the constitutionality of the Philippine SEC Guidelines in determining the nationality of a Philippine company pursuant to the Gamboa Case Decision and Section 11, Article XII of the Constitution. Per the Philippine SEC Guidelines, the Philippine nationality requirement of Section 11, Article XII of the Constitution is met if at least 60% of: (a) the outstanding voting stocks; and (b) the outstanding capital stock of the company is owned by Filipinos.

The Petition admits that if the Philippine SEC Guidelines were to be followed, PLDT would be compliant with the nationality requirement of the Philippine Constitution. However, the Petition claims that the Philippine SEC Guidelines do not conform to the letter and spirit of the Constitution and the Gamboa Case Decision supposedly requiring the application of the 60%-40% ownership requirement in favor of Filipino citizens separately to each class of shares, whether common, preferred non-voting, preferred voting or any other class of shares, or the Other Gamboa Statements. The Petition also claims that the PLDT-BTF does not satisfy the effective Filipino-control test for purposes of incorporating BTFHI which acquired the 150 million Voting Preferred Shares.

Wilson C. Gamboa, Jr., Daniel V. Cartagena, John Warren P. Gabinete, Antonio V. Pesina, Jr., Modesto Martin Y. Mamon and Gerardo C. Erebaren, or the Intervenors, filed a Motion for Leave to file Petition-In-Intervention dated July 16, 2013 which the Supreme Court granted in a Resolution dated August 6, 2013. The Petition-In-Intervention raised identical arguments and issues as that of the Petition.

PLDT, through counsels, filed its Comment on the Petition on September 5, 2013. In its Comment, PLDT raised the following defenses: (a) Petitioner's direct recourse to the Supreme Court in filing the petition violates the fundamental doctrine of the hierarchy of courts. There are no compelling reasons to invoke the Supreme Court's original jurisdiction; (b) The Petition was prematurely brought before the Supreme Court. Petitioner failed to exhaust administrative remedies before the Philippine SEC, and there are facts yet to be established (in the lower courts) that are necessary for a proper and complete ruling; (c) The Petition is in the nature of a petition for mandamus and/or declaratory relief which, under Rules 65 and 63 of the Rules of Court, are not within the exclusive and/or original jurisdiction of the Supreme Court, as provided under Article VIII, Sections 5(1), 5(5), 6 and 11 of the Constitution and Rule 56 of the Rules of Court; (d) The Petition must be dismissed in as much as it is challenging the validity and constitutionality of a Memorandum Circular, which was issued in the exercise of the Philippine SEC's quasi-legislative power, for which a petition for certiorari is an inappropriate remedy; (e) Assuming arguendo that the issuance of Philippine SEC Memorandum Circular No. 8 involved the exercise by the Philippine SEC of its quasi-judicial power, the Petition still cannot prosper since the issue of the validity and constitutionality of Philippine SEC Memorandum Circular No. 8 does not pertain to errors of jurisdiction on the part of the Philippine SEC; (f) Petitioner is not the proper party to question the constitutionality of the Philippine SEC Guidelines and PLDT's compliance with the Gamboa decision and the Petition is likewise not a valid taxpayer's suit and should not be entertained by the Supreme Court; (g) The Petition seeks relief that effectively deprives the necessary and indispensable parties affected thereby (such as, BTFHI, MediaQuest, PLDT-BTF, and all corporations in which PLDT-BTF made an investment and their subsidiaries) of their constitutional right to due process, all of whom were not impleaded as parties; and (h) Philippine SEC Memorandum Circular No. 8 merely implemented the dispositive portion of the Gamboa Case Decision.

Particularly, for the defense under (h) above, PLDT argued that: (a) the only binding and enforceable part of the Gamboa Case Decision is the dispositive portion, which defined the term "capital" under Article XII. Section 11 of the 1987 Constitution as "shares of stock entitled to vote in the election of directors", and such dispositive portion of the Gamboa Case Decision is properly reflected and enforced in Philippine SEC Memorandum Circular No. 8. The Other Gamboa Statements were just "obiter dicta" or expressions of opinion which have no precedential value and binding effect; and (b) with respect to the nationality of PLDT-BTF and BTFHI, the fundamental requirements which needs to be satisfied in order for PLDT-BTF and BTFHI to be considered Filipino is for PLDT-BTF's Trustees to be Filipinos and 60% of the Fund will accrue to the benefit of Philippine nationals. This is reflected in Section 3(a) of Republic Act No. 7042, as amended, or the Foreign Investment Act, which provides that the term "Philippine national" includes "a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine national and at least 60% of the fund will accrue to the benefit of "Philippine nationals". Both requirements are present with respect to the PLDT-BTF. Consequently, there is no question that PLDT-BTF and BTFHI are Filipino shareholders for purposes of classifying their 150 million shares of Voting Preferred Stock in PLDT and as a result, more than 60% of PLDT's total voting stock is Filipino-owned. PLDT is thus compliant with the Philippine nationality requirement under Article XII, Section 11 of the 1987 Constitution.

The resolution of the Jose M. Roy III Petition remains pending with the Supreme Court.

Other disclosures required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, were not provided as it may prejudice our position in on-going claims, litigations and assessments. See Note 3 – Management's Use of Accounting Judgments, Estimates and Assumptions – Provision for Legal Contingencies and Tax Assessments.

# 27. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only-currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies – Financial Instruments*.

The following table sets forth our financial assets and financial liabilities held as at September 30, 2013, December 31, 2012 and January 1, 2012:

|   | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL | Derivatives<br>used for<br>hedging | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized cost | Total<br>financial<br>assets and<br>liabilities |
|---|-----------------------------|--------------------|-------------------------------------|------------------------------------|---|--|---|
|   | 10001142100                 |                    | ut : 1: 1                           | (in million peso                   |   | 4  | habiittioo                                      |
| Assets as at September 30, 2013<br>(Unaudited)      |                             |                    |                                     | (in this of poor                   | 50  |  |   |
| Noncurrent:   |                             |                    |                                     |                                    |   |  |   |
| Available-for-sale financial investments            | -                           | -                  | -                                   | -                                  | 5,673   | -  | 5,673   |
| Investment in debt securities and other             |                             |                    |                                     |                                    |   |  |   |
| long-term investments                               | 305                         | 473                | -                                   | -                                  | -   | -  | 778   |
| Derivative financial assets                         | -                           | -                  | -                                   | 22                                 | -   | -  | 22  |
| Advances and other noncurrent assets -              |                             |                    |                                     |                                    |   |  |   |
| net of current portion                              | 2,039                       | -                  | -                                   | -                                  | -   | -  | 2,039   |
| Current:  |                             |                    |                                     |                                    |   |  |   |
| Cash and cash equivalents                           | 29,779                      | -                  | -                                   | -                                  | -   | -  | 29,779  |
| Short-term investments                              | 24                          | -                  | 571                                 | -                                  | -   | -  | 595   |
| Trade and other receivables                         | 16,808                      | -                  | -                                   | -                                  | -   | -  | 16,808  |
| Derivative financial assets                         | -                           | -                  | -                                   | 1                                  | -   | -  | 1   |
| Current portion of investment in debt               |                             |                    |                                     |                                    |   |  |   |
| securities and other long-term                      |                             |                    |                                     |                                    |   |  |   |
| investments   | -                           | 91                 | -                                   | -                                  | -   | -  | 91  |
| Current portion of advances and other               |                             |                    |                                     |                                    |   |  |   |
| noncurrent assets                                   | 7,993                       | _                  | -                                   |                                    | _   | _  | 7,993   |
| Total assets  | 56,948                      | 564                | 571                                 | 23                                 | 5,673   | -  | 63,779  |
| Liabilities as at September 30, 2013<br>(Unaudited) |                             |                    |                                     |                                    |   |  |   |
| Noncurrent:   |                             |                    |                                     |                                    |   |  |   |
| Interest-bearing financial liabilities -            |                             |                    |                                     |                                    |   |  |   |
| net of current portion                              | -                           | -                  |                                     | -                                  | -   | 95,208   | 95,208  |
| Derivative financial liabilities                    | -                           | -                  | 1,954                               | 8                                  | -   |  | 1,962   |
| Customers' deposits                                 | -                           | -                  | -                                   | -                                  | -   | 2,555  | 2,555   |
| Deferred credits and other noncurrent               |                             |                    |                                     |                                    |   |  |   |
| liabilities   | -                           | -                  | -                                   | -                                  | -   | 18,828   | 18,828  |
| Current:  |                             |                    |                                     |                                    |   |  |   |
| Accounts payable                                    | -                           | -                  | -                                   | -                                  | -   | 26,911   | 26,911  |
| Accrued expenses and other current                  |                             |                    |                                     |                                    |   |  |   |
| liabilities   | -                           | -                  | -                                   | -                                  | -   | 56,713   | 56,713  |
| Current portion of interest-bearing                 |                             |                    |                                     |                                    |   |  |   |
| financial liabilities                               | -                           | -                  | -                                   | -                                  | -   | 14,258   | 14,258  |
| Dividends payable                                   | -                           | -                  | -                                   | -                                  | -   | 1,054  | 1,054   |
| Derivative financial liabilities                    | _                           | -                  | 68                                  | 49                                 | -   | -  | 117   |
| Total liabilities                                   | -                           | -                  | 2,022                               | 57                                 | -   | 215,527  | 217,606   |
| Net assets (liabilities)                            | 56,948                      | 564                | (1,451)                             | (34)                               | 5,673   | (215,527)  | (153,827)                                       |

|   | Loans<br>and<br>receivables | HTM<br>investments | Financial<br>instruments<br>at FVPL | Derivatives<br>used for<br>hedging | Available-for-<br>sale financial<br>investments | Financial<br>liabilities<br>carried at<br>amortized cost | Total<br>financial<br>assets and<br>liabilities |
|---|-----------------------------|--------------------|-------------------------------------|------------------------------------|---|--|---|
| Assets as at December 31, 2012<br>(As Adjusted – Note 2)  |                             |                    |                                     | (in million peso                   | os)   |  |   |
| Noncurrent:<br>Available-for-sale financial investments<br>Investment in debt securities and other                            | -                           | -                  | -                                   | -                                  | 5,651   | -  | 5,651   |
| long-term investments – net of current<br>portion<br>Advances and other noncurrent assets –                                   | 205                         | -                  | -                                   | -                                  | -   | -  | 205   |
| net of current portion  | 962                         | -                  | -                                   | -                                  | -   | -  | 962   |
| Cash and cash equivalents<br>Short-term investments   | 37,161<br>24                | -                  | 550                                 | -                                  | -   | -  | 37,161<br>574                                   |
| Trade and other receivables<br>Current portion of investment in debt<br>securities and other long-term                        | 16,379                      | -                  | _                                   | -                                  | -   | -  | 16,379  |
| investments<br>Current portion of advances and other  | -                           | 150                | -                                   | -                                  | -   | -  | 150   |
| noncurrent assets   | 7,915                       | -                  | -                                   | -                                  | -   | -  | 7,915   |
| Total assets  | 62,646                      | 150                | 550                                 | -                                  | 5,651   | _  | 68,997  |
| Liabilities as at December 31, 2012<br>(As Adjusted – Note 2)<br>Noncurrent:  |                             |                    |                                     |                                    |   |  |   |
| Interest-bearing financial liabilities –<br>net of current portion  | -                           | -                  | -                                   | -                                  | -   | 102,821  | 102,821   |
| Derivative financial liabilities<br>Customers' deposits   | -                           | -                  | 2,802                               | -                                  | -   | 2,529  | 2,802<br>2,529                                  |
| Deferred credits and other noncurrent<br>liabilities  | _                           | _                  | _                                   | _                                  | _   | 19,224   | 19,224  |
| Current:<br>Accounts payable  | _                           | _                  | _                                   | _                                  | _   | 29,027   | 29,027  |
| Accrued expenses and other current liabilities  | _                           | _                  | _                                   | _                                  | _   | 56,662   | 56,662  |
| Current portion of interest-bearing   |                             |                    |                                     |                                    |   |  |   |
| financial liabilities<br>Dividends payable<br>Derivative financial liabilities  | -                           | -                  | -<br>70                             | 348                                | -   | 12,989<br>827  | 12,989<br>827<br>418                            |
| Total liabilities   | =                           | -                  | 2,872                               | 348                                | -   | 224,079  | 227,299   |
| Net assets (liabilities)  | 62,646                      | 150                | (2,322)                             | (348)                              | 5,651   | (224,079)  | (158,302)                                       |
| Assets as at January 1, 2012<br>(As Adjusted – Note 2)<br>Noncurrent:   |                             |                    |                                     |                                    |   |  |   |
| Available-for-sale financial investments<br>Investment in debt securities and other<br>long-term investments – net of current | -                           | _                  | _                                   | -                                  | 7,181   | -  | 7,181   |
| portion<br>Advances and other noncurrent assets –   | -                           | 150                | -                                   | -                                  | -   | -  | 150   |
| net of current portion  | 1,147                       | -                  | -                                   | -                                  | -   | -  | 1,147   |
| Cash and cash equivalents<br>Short-term investments   | 46,057<br>24                | -                  | 534                                 | -                                  | -   | -  | 46,057<br>558                                   |
| Trade and other receivables<br>Current portion of investment in debt  | 16,245                      | -                  | - 534                               | -                                  | -   | _  | 16,245  |
| securities and other long-term<br>investments<br>Current portion of advances and other  | -                           | 358                | -                                   | -                                  | -   | -  | 358   |
| noncurrent assets   | 18                          | -                  | 366                                 | -                                  | -   | -  | 384   |
| Total assets  | 63,491                      | 508                | 900                                 | -                                  | 7,181   | -  | 72,080  |
| Liabilities as at January 1, 2012<br>(As Adjusted – Note 2)<br><i>Noncurrent:</i>   |                             |                    |                                     |                                    |   |  |   |
| Interest-bearing financial liabilities –<br>net of current portion  | -                           | -                  | -                                   | -                                  | -   | 91,280   | 91,280  |
| Derivative financial liabilities<br>Customers' deposits   | -                           | -                  | 2,235                               | -                                  |   | 2,272  | 2,235<br>2,272                                  |
| Deferred credits and other noncurrent liabilities   | _                           | -                  | -                                   | -                                  | -   | 20,343   | 20,343  |
| Current:<br>Accounts payable<br>Accrued expenses and other current  | -                           | -                  | -                                   | -                                  | -   | 27,982   | 27,982  |
| liabilities<br>Current portion of interest-bearing  | -                           | -                  | -                                   | -                                  | -   | 40,459   | 40,459  |
| financial liabilities<br>Dividends payable  | -                           | -                  | -                                   | -                                  |   | 26,009<br>2,583  | 26,009<br>2,583                                 |
| Derivative financial liabilities  | _                           | _                  | 922                                 | 2                                  | _   | _  | 924   |
| Total liabilities   |                             |                    | 3,157                               | 2                                  |   | 210,928  | 214,087   |

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities recognized as at September 30, 2013, December 31, 2012 and January 1, 2012:

|  | Carrying Value        |                      |                    |                       | Fair Value           |                   |  |
|--|-----------------------|----------------------|--------------------|-----------------------|----------------------|-------------------|--|
|  | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |  |
|  | (Unaudited)           | (As Adjusted         |                    | (Unaudited)           | (As Adjusted         |                   |  |
|  |                       |                      | (in milli          | on pesos)             |                      |                   |  |
| Noncurrent Financial Assets<br>Available-for-sale financial<br>investments:    |                       |                      |                    |                       |                      |                   |  |
| Listed equity securities   | 102                   | 89                   | 81                 | 102                   | 89                   | 81                |  |
| Unlisted equity securities   | 5,571                 | 5,562                | 7,100              | 5,571                 | 5,562                | 7,100             |  |
| nvestment in debt securities and   |                       |                      |                    |                       |                      |                   |  |
| other long-term investments –  |                       |                      |                    |                       |                      |                   |  |
| net of current portion   | 778                   | 205                  | 150                | 770                   | 219                  | 158               |  |
| Derivative financial assets:   | 00                    |                      |                    | 00                    |                      |                   |  |
| Interest rate swap<br>Advances and other noncurrent                            | 22                    | -                    | -                  | 22                    | -                    | -                 |  |
| assets – net of current portion  | 2,039                 | 962                  | 1,147              | 2,001                 | 912                  | 1,061             |  |
| Total noncurrent financial assets  | 8,512                 | 6,818                | 8,478              | 8,466                 | 6,782                | 8,400             |  |
| Current Financial Assets   | -,                    | 010.0                |                    | -,                    | -1                   | -,                |  |
| Cash and cash equivalents:   |                       |                      |                    |                       |                      |                   |  |
| Cash on hand and in banks  | 4,430                 | 5,611                | 4,637              | 4,430                 | 5,611                | 4,637             |  |
| Temporary cash investments   | 25,349                | 31,550               | 41,420             | 25,349                | 31,550               | 41,420            |  |
| Short-term investments   | 595                   | 574                  | 558                | 595                   | 574                  | 558               |  |
| Frade and other receivables – net:   |                       |                      |                    |                       |                      |                   |  |
| Foreign administrations  | 5,645                 | 4,861                | 4,762              | 5,645                 | 4,861                | 4,762             |  |
| Retail subscribers   | 5,102                 | 4,079                | 4,038              | 5,102                 | 4,079                | 4,038             |  |
| Corporate subscribers  | 1,505                 | 1,963                | 2,708              | 1,505                 | 1,963                | 2,708             |  |
| Domestic carriers  | 1,332                 | 1,601                | 1,212              | 1,332                 | 1,601                | 1,212             |  |
| Dealers, agents and others   | 3,224                 | 3,875                | 3,525              | 3,224                 | 3,875                | 3,525             |  |
| Derivative financial assets:   |                       |                      |                    |                       |                      |                   |  |
| Short-term currency swap   | 1                     | -                    | -                  | 1                     | -                    | -                 |  |
| Long-term currency swap  | -                     | -                    | 356                | -                     | -                    | 356               |  |
| Forward foreign exchange contracts   | -                     | -                    | 10                 | -                     | -                    | 10                |  |
| Current portion of investment in   |                       |                      |                    |                       |                      |                   |  |
| debt securities and other long-  |                       |                      |                    |                       |                      |                   |  |
| term investments   | 91                    | 150                  | 358                | 91                    | 150                  | 358               |  |
| Current portion of advances and  |                       |                      |                    |                       |                      |                   |  |
| other noncurrent assets  | 7,993                 | 7,915                | 18                 | 7,993                 | 7,915                | 18                |  |
| Total current financial assets   | 55,267                | 62,179               | 63,602             | 55,267                | 62,179               | 63,602            |  |
| Total Financial Assets   | 63,779                | 68,997               | 72,080             | 63,733                | 68,961               | 72,002            |  |
| Long-term debt – net of current<br>portion<br>Obligations under finance leases | 95,201<br>7           | 102,811<br>10        | 91,273<br>7        | 100,598<br>7          | 110,431<br>9         | 95,052<br>7       |  |
| Derivative financial liabilities:  |                       |                      |                    |                       |                      |                   |  |
| Long-term currency swap - net  | 1 076                 | 0.601                | 0.000              | 1 076                 | 0.601                | 0.000             |  |
| of current portion   | 1,876                 | 2,681                | 2,090              | 1,876                 | 2,681                | 2,090             |  |
| Interest rate swap - net of  | 86                    | 121                  | 145                | 86                    | 121                  | 145               |  |
| current portion<br>Customers' deposits   | 2,555                 | 2,529                | 2,272              | 2,067                 | 2,200                | 140               |  |
| Deferred credits and other   | 2,000                 | 2,029                | 2,212              | 2,007                 | 2,200                | 1,112             |  |
| noncurrent liabilities   | 18,828                | 19,224               | 20,343             | 17,695                | 18,176               | 19,420            |  |
| Total noncurrent financial liabilities   |                       | 127,376              | 116,130            | 122,329               | 133,618              | 118,486           |  |
| Current Financial Liabilities  | ,                     | ,0,0                 | ,                  | ,0_0                  | ,0.10                | 0, .00            |  |
| Accounts payable:  |                       |                      |                    |                       |                      |                   |  |
| Suppliers and contractors  | 23,901                | 26,128               | 25,476             | 23,901                | 26,128               | 25,476            |  |
| Carriers   | 2,003                 | 2,007                | 1,642              | 2,003                 | 2,007                | 1,642             |  |
| Related parties  | 863                   | 668                  | 626                | 863                   | 668                  | 626               |  |
| Others   | 144                   | 224                  | 238                | 144                   | 224                  | 238               |  |
| Accrued expenses and other current   |                       |                      |                    |                       |                      |                   |  |
| liabilities:   | o                     | 00.105               | 00.100             | <i></i>               |                      |                   |  |
| Utilities and related expenses   | 34,965                | 36,435               | 28,123             | 34,965                | 36,435               | 28,123            |  |
| Liability from redemption of   | 7 004                 | 7 00 4               |                    | 7 004                 | 7.004                |                   |  |
| preferred shares   | 7,961                 | 7,884                | -                  | 7,961                 | 7,884                | 4 400             |  |
| Employee benefits  | 6,792                 | 5,469                | 4,438              | 6,792                 | 5,469                | 4,438             |  |
| Interests and other related costs<br>Mandatory tender offer option             | 649                   | 1,174                | 1,122              | 649                   | 1,174                | 1,122             |  |
| liability  | _                     |                      | 4,940              | _                     |                      | 4,940             |  |
| Others   | -<br>6,346            | 5,700                | 1,836              | -<br>6,346            | 5,700                | 4,940             |  |
| nterest-bearing financial liabilities:   | 0,040                 | 5,700                | 1,000              | 0,340                 | 5,700                | 1,030             |  |
| Current portion of long-term debt  | 14,252                | 12,981               | 22,893             | 14,252                | 12,981               | 22,893            |  |
| Obligations under finance leases   | 6                     | 8                    | 7                  | 6                     | 8                    | 7                 |  |
| Notes payable  | -                     | -                    | 3,109              | -                     | -                    | 3,109             |  |
| Dividends payable  | 1,054                 | 827                  | 2,583              | 1,054                 | 827                  | 2,583             |  |
| Derivative financial liabilities:  | .,                    | 02.                  | 2,000              | .,                    | 52.                  | 2,000             |  |
| Current portion of interest rate   |                       |                      |                    |                       |                      |                   |  |
| swap   | 111                   | 70                   | 89                 | 111                   | 70                   | 89                |  |
| Forward foreign exchange contracts   |                       | -                    | 1                  | -                     | -                    | 1                 |  |
| Equity forward sale contract   | 6                     | 348                  | -                  | 6                     | 348                  | -                 |  |
| Current portion of long-term   |                       |                      |                    |                       |                      |                   |  |
| currency swap  | -                     | -                    | 834                | _                     | -                    | 834               |  |
| Total current financial liabilities  | 99,053                | 99,923               | 97,957             | 99,053                | 99,923               | 97,957            |  |
|  | 217,606               | 227,299              | 214,087            | 221,382               | 233,541              | 216,443           |  |

The following table sets forth the consolidated offsetting of financial assets and liabilities recognized as at September 30, 2013:

|   | Gross amounts of recognized financial assets and liabilities | Gross amounts of<br>recognized financial<br>assets and liabilities set-<br>off in the statement of<br>financial position | Net amount<br>presented in the<br>statement of<br>financial position |
|---|--|--|--|
|   |  | (in million pesos)   |  |
| September 30, 2013 (Unaudited)              |  |  |  |
| Noncurrent Financial Assets                 |  |  |  |
| Derivative financial instruments            |  |  |  |
| Interest rate swap                          | 200  | 178  | 22   |
| Current Financial Assets                    |  |  |  |
| Trade and other receivables                 |  |  |  |
| Foreign administrations                     | 8,102  | 2,457  | 5,645  |
| Corporate subscribers                       | 1,589  | 84   | 1,505  |
| Domestic carriers                           | 6,622  | 5,290  | 1,332  |
| Derivative financial instruments            |  |  |  |
| Interest rate swap                          | 72   | 72   | -  |
| Total                                       | 16,585   | 8,081  | 8,504  |
|   |  |  |  |
| Noncurrent Financial Liabilities            |  |  |  |
| Derivative financial instruments            |  |  |  |
| Interest rate swap – net of current portion | 265  | 179  | 86   |
| Current Financial Liabilities               |  |  |  |
| Accounts payable                            |  |  |  |
| Suppliers and contractors                   | 23,986   | 85   | 23,901   |
| Carriers                                    | 3,919  | 1,916  | 2,003  |
| Derivative financial instruments            |  |  |  |
| Current portion of interest rate swap       | 197  | 86   | 111  |
| Total                                       | 28,367   | 2,266  | 26,101   |

There were no financial instruments subject to an enforceable master netting arrangement that were not setoff in the statement of financial position.

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as required for complete sets of financial statements as at September 30, 2013, December 31, 2012 and January 1, 2012. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial statements.

|                                   | September 30, 2013     |                        |       | 0                      | ecember 31, 201        | 2     |                        | January 1, 2012        |       |  |
|-----------------------------------|------------------------|------------------------|-------|------------------------|------------------------|-------|------------------------|------------------------|-------|--|
| _                                 |                        | (Unaudited)            |       |                        |                        | (Auc  | dited)                 |                        |       |  |
|                                   | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Total | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</sup> | Total |  |
|                                   |                        |                        |       |                        | (in million pesos)     |       |                        |                        |       |  |
| Noncurrent Financial Assets       |                        |                        |       |                        |                        |       |                        |                        |       |  |
| Available-for-sale                |                        |                        |       |                        |                        |       |                        |                        |       |  |
| financial investments             |                        |                        |       |                        |                        |       |                        |                        |       |  |
| <ul> <li>Listed equity</li> </ul> |                        |                        |       |                        |                        |       |                        |                        |       |  |
| securities                        | 102                    | -                      | 102   | 89                     | -                      | 89    | 81                     | -                      | 81    |  |
| Derivative financial assets       | -                      | 22                     | 22    | -                      | -                      | -     | -                      | -                      | -     |  |
| Current Financial Assets          |                        |                        |       |                        |                        |       |                        |                        |       |  |
| Short-term investments            | -                      | 571                    | 571   | -                      | 550                    | 550   | -                      | 534                    | 534   |  |
| Derivative financial assets       | -                      | 1                      | 1     | -                      | -                      | -     | -                      | 366                    | 366   |  |
| Total                             | 102                    | 594                    | 696   | 89                     | 550                    | 639   | 81                     | 900                    | 981   |  |
| Noncurrent Financial Liabilitie   | 96                     |                        |       |                        |                        |       |                        |                        |       |  |
| Derivative financial              |                        |                        |       |                        |                        |       |                        |                        |       |  |
| liabilities                       | _                      | 1.962                  | 1.962 | _                      | 2.802                  | 2.802 | _                      | 2,235                  | 2.235 |  |
| Current Financial Liabilities     |                        | 1,002                  | 1,002 |                        | 2,002                  | 2,002 |                        | 2,200                  | 2,200 |  |
| Derivative financial              |                        |                        |       |                        |                        |       |                        |                        |       |  |
| liabilities                       | -                      | 117                    | 117   | _                      | 418                    | 418   | _                      | 924                    | 924   |  |
| Total                             | -                      | 2,079                  | 2.079 | -                      | 3,220                  | 3.220 | _                      | 3,159                  | 3.159 |  |

Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.
 Fair values determined using inputs other than quoted market prices that are either directly or indirectly observable for the assets or liabilities.

As at September 30, 2013, December 31, 2012 and January 1, 2012, we have no financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3). There were also no transfers into and out of Level 3 during the period.

As at September 30, 2013, December 31, 2012 and January 1, 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities:

Fair value is based on the following:

| Туре  | Fair Value Assumptions  | Fair Value Hierarchy |
|---|---|----------------------|
| Noncurrent portion of advances and other<br>noncurrent assets             | Estimated fair value is based on the discounted values of<br>future cash flows using the applicable zero coupon rates plus<br>credit spread.  | Level 3              |
| Fixed Rate Loans:<br>U.S. dollar notes                                    | Quoted market price.  | Level 1              |
| Other loans in all other currencies                                       | Estimated fair value is based on the discounted value of<br>future cash flows using the applicable Commercial Interest<br>Reference Rate and Philippine Dealing System Treasury<br>Fixing, or PDST-F, rates for similar types of loans. | Level 3              |
| Variable Rate Loans   | The carrying value approximates fair value because of recent<br>and regular repricing based on market conditions.   | Level 2              |
| Customers' deposits and deferred credits and other noncurrent liabilities | Estimated fair value is based on the discounted values of<br>future cash flows using the applicable zero coupon rates plus<br>credit spread.  | Level 3              |

Derivative Financial Instruments:

Forward foreign exchange contracts, foreign currency swaps and interest rate swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

*Equity forward sale contract:* The fair values were adjusted as the present value of estimated future cash flows using equity prices and Philippine peso interest rates as at valuation date.

Available-for-sale financial investments: Fair values of available-for-sale financial investments, which consist of proprietary listed shares, were determined using quoted prices. For investment where there is no active market, investments are carried at cost less any accumulated impairment losses.

*Investment in debt securities:* Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable, accrued expenses and other current liabilities, and dividends payable approximate their carrying values as at the end of the reporting period.

# Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. Equity forward sale contract was designated as cash flow hedge by ePLDT as at September 30, 2013, December 31, 2012 and January 1, 2012 and forward foreign exchange contracts were designated as cash flow hedges by SPi and SPi CRM as at January 1, 2012. Interest rate swap agreements were designated as cash flow hedges by PLDT and Smart as at September 30, 2013.

|  |          | Septemb    | oer 30, 2013                         | Decembe    | r 31, 2012                           | Januar            | y 1, 2012                           |
|--|----------|------------|--------------------------------------|------------|--------------------------------------|-------------------|-------------------------------------|
|  |          | (Una       | udited)                              |            | (Aud                                 | dited)            |                                     |
|  | Maturity | Notional   | Mark-to-<br>market Gains<br>(Losses) | Notional   | Mark-to-<br>market Gains<br>(Losses) | Notional          | Mark-to-<br>market Gair<br>(Losses) |
|  |          |            |                                      | (in mi     | illions)                             |                   | . ,                                 |
| Transactions not designated as h<br>PI DT        | edges:   |            |                                      |            |                                      |                   |                                     |
| Long-term currency swaps                         | 2017     | US\$202    | (Php1,876)                           | US\$202    | (Php2,681)                           | US\$222           | (Php2,090                           |
| <b>.</b>   | 2012     | -          | -                                    | -          | -                                    | 100               | (834                                |
|  | 2012     | -          | -                                    | -          | -                                    | 60 <sup>(1)</sup> | 356                                 |
| Short-term currency swaps                        | 2013     | 7          | 1                                    | -          | -                                    | -                 | _                                   |
|  |          |            | (1,875)                              |            | (2,681)                              |                   | (2,568                              |
| Digitel Group                                    |          |            |                                      |            |                                      |                   |                                     |
| Interest rate swaps                              | 2017     | 47         | (146)                                | 57         | (191)                                | 69                | (234                                |
|  |          |            | 1                                    |            | ( = )                                |                   |                                     |
| Cash flow hedges:<br>PLDT<br>Interest rate swaps | 2018     | 120        | 1                                    | -          | -                                    | -                 | -                                   |
| Smart  |          |            |                                      |            |                                      |                   |                                     |
| Interest rate swaps                              | 2016     | 83         | (4)                                  | -          | -                                    | -                 | -                                   |
|  | 2017     | 44         | (5)                                  | -          | -                                    | -                 | -                                   |
|  | 2018     | 40         | (21)                                 |            |                                      |                   |                                     |
|  |          |            | (29)                                 |            |                                      |                   | -                                   |
| ePLDT Group                                      |          |            |                                      |            |                                      |                   |                                     |
| Equity forward sale contract                     | 2013     | 118 shares | (6)                                  | 211 shares | (348)                                | -                 | -                                   |
| SPi Group<br>Forward foreign exchange            |          |            |                                      |            |                                      |                   |                                     |
|  | 2012     | _          | _                                    | _          | -                                    | 57                | 10                                  |
| contracts  |          | -          | -                                    | _          | _                                    | 4                 | (1                                  |
| contracts  | 2013     |            |                                      |            |                                      | 7                 | 1                                   |
| contracts  | 2013     |            | _                                    |            | -                                    |                   | 9                                   |

The table below sets out the information about our derivative financial instruments as at September 30, 2013, December 31, 2012 and January 1, 2012:

Overlay principal only swap agreements to effectively unwind a portion of the outstanding long-term principal only swap agreement

|                        | September 30,<br>2013 | December 31,<br>2012 | January 1<br>2012 |  |
|------------------------|-----------------------|----------------------|-------------------|--|
|                        | (Unaudited)           | (Audited)            |                   |  |
|                        |                       | (in million pesos)   |                   |  |
| Presented as:          |                       |                      |                   |  |
| Current assets         | 1                     | -                    | -                 |  |
| Noncurrent assets      | 22                    | -                    | 366               |  |
| Noncurrent liabilities | (1,962)               | (2,802)              | (2,235)           |  |
| Current liabilities    | (117)                 | (418)                | (924)             |  |
| Net liabilities        | (2,056)               | (3,220)              | (2,793)           |  |

Movements of mark-to-market losses for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are summarized as follows:

|   | 2013        | 2012     |
|---|-------------|----------|
|   | (Unaudited) | (Audited |
|   | (in million | pesos)   |
| Net mark-to-market losses at beginning of the period                        | (3,220)     | (2,793)  |
| Gains (losses) on derivative financial instruments                          | 719         | (1,661)  |
| Effective portion recognized in the profit or loss for the cash flow hedges | 178         | 418      |
| Net gains on cash flow hedges charged to other comprehensive income         | 144         | 92       |
| Settlements, accretions and conversions                                     | 129         | 785      |
| Interest expense  | (6)         | -        |
| Discontinued operations   | -           | (61)     |
| Net mark-to-market losses at end of the period                              | (2.056)     | (3.220)  |

Analysis of gains (losses) on derivative financial instruments for the nine months ended September 30, 2013 and 2012 are as follows:

|   | 2013        | 2012                      |
|---|-------------|---------------------------|
|   | (Unaudited) | (As Adjusted –<br>Note 2) |
|   | (in millic  | n pesos)                  |
| Gains (losses) on derivative financial instruments (Note 4)     | 719         | (1,311)                   |
| Hedge cost  | (227)       | (249)                     |
| Net gains (losses) on derivative financial instruments (Note 4) | 492         | (1,560)                   |

### PLDT

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may qualify for hedge accounting.

#### Interest Rate Swaps

On May 27, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on June 6, 2013) and in exchange, will pay a fixed rate of 1.945%.

On June 6, 2013, PLDT entered into a five-year interest rate swap agreement with a total notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.385%.

On July 13, 2013, PLDT entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the outstanding balance of the US\$300 million Loan Facility maturing in January 2018 into fixed interest rate. Under this agreement, PLDT is entitled to receive a floating rate of equivalent to the three-month US\$ LIBOR plus a margin at the end of each Calculation Period (comprising of successive periods of three months commencing on September 6, 2013) and in exchange, will pay a fixed rate of 2.25%.

The interest rate swap agreements were designated as cash flow hedges, wherein effective portion of the movements in the fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at September 30, 2013, the mark-to-market gains of the interest swap with aggregate notional amount of US\$120 million and recognized in other comprehensive income amounted to Php2 million. There was no ineffective portion in the fair value of these instruments recognized in the consolidated statement of income for the nine months ended September 30, 2013. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

### Long-term Currency Swaps

PLDT has entered into long-term principal only-currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine pesodenominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. The outstanding swap contracts have an agreed average swap exchange rates of Php49.85 and Php49.81 for the nine months ended September 30, 2013 and 2012, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 3.42% per annum for the nine months ended September 30, 2013 and 2012. On various dates from August to November 2012, the long-term principal only-currency swap agreements maturing in 2017 were partially terminated, with a total aggregate settlement of Php256 million. As a result of these unwinding transactions, the outstanding notional amount was reduced to US\$202 million as at September 30, 2013 and December 31, 2012. The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php1,876 million and Php2,681 million as at September 30, 2013 and December 31, 2012. The mark-to-market losses of the 2017 swaps with a notional amount of US\$202 million amounted to Php1,876 million and Php2,681 million as at September 30, 2013 and December 31, 2012, respectively. The mark-to-market losses of the 2012 and 2017 swaps with notional amounts of US\$100 million and US\$222 million, respectively, amounted to Php834 million and Php2,090 million, respectively, as at January 1, 2012.

On various dates from October to November 2010, PLDT entered into several overlay principal only swap agreements with an aggregate notional amount of US\$60 million to effectively unwind a portion of the outstanding long-term principal only-currency swap agreement maturing in 2012. The overlay swaps are offsetting swaps which carry the direct opposite terms and cash flows of our existing swap agreement. As consideration for the overlay swaps, PLDT will pay an average fixed rate of 10.84% on a semi-annual basis over the life of the offsetting swaps. These overlay swap agreements have an aggregate mark-to-market gains of Php356 million as at January 1, 2012. These overlay swaps matured on May 15, 2012, where PLDT received proceeds amounting to Php565 million. See *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt*.

# Short-term Currency Swaps

In September 2013, PLDT also entered into short-term currency swap contracts to generate short-term peso liquidity while preserving U.S. dollar receipts for purposes of enhancing yields on our excess funds. The total outstanding swaps amounted to US\$7 million with U.S. dollar forward purchase leg booked at an average exchange rate of Php43.31 resulting to mark-to-market gains of Php1 million as at September 30, 2013. The spot leg of these swaps were sold at an average exchange rate of Php43.35. There were no outstanding short-term currency swaps and forward foreign exchange contracts as at December 31, 2012 and January 1, 2012.

# **Digitel Group**

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the US\$59.2 million Loan Facility maturing in March 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.88%. The outstanding notional amounts under this agreement amounted to US\$24 million, US\$31 million and US37 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The mark-to-market losses amounted to Php68 million, Php102 million and Php125 million as at September 30, 2013, December 31, 2012, respectively. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

On October 7, 2008, DMPI entered into an eight-year interest rate swap agreement with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the US\$51.2 million Loan Facility maturing in June 2017 into fixed interest rate. Under this agreement, Digitel is entitled to receive a floating rate of equivalent to the US\$ LIBOR rate as of the last Calculation Date and in exchange, will pay a fixed rate of 3.97%. The outstanding notional amounts under this agreement amounted to US\$23 million, US\$26 million and US\$32 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The mark-to-market losses amounted to Php78 million, Php89 million and Php109 million as at September 30, 2013, December 31, 2012, respectively. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

# Smart

On May 8, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$45 million to hedge its interest rate exposure on the outstanding balance of the US\$60 million Loan Facility maturing in June 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on December 6, 2013) and in exchange, will pay a fixed rate of 1.527%. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

On May 9, 2013, Smart entered into a three-year interest rate swap agreement with a total notional amount of US\$38 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in August 2016 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on February 19, 2014) and in exchange, will pay a fixed rate of 1.4275%. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

On May 16, 2013, Smart entered into a four-year interest rate swap agreement with a total notional amount of US\$44 million to hedge its interest rate exposure on the outstanding balance of the US\$50 million Loan Facility maturing in May 2017 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on November 29, 2013) and in exchange, will pay a fixed rate of 1.77%. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

On July 18, 2013, Smart entered into a five-year interest rate swap agreement with a notional amount of US\$40 million to hedge its interest rate exposure on a portion of the US\$120 million Loan Facility maturing in June 2018 into fixed interest rate. Under this agreement, Smart is entitled to receive a floating rate equivalent to the six-month US\$ LIBOR rate plus a margin at the end of each Calculation Period (comprising of successive periods of six months commencing on March 25, 2014) and in exchange, will pay a fixed rate of 2.36%. See Note 20 – Interest-bearing Financial Liabilities – Long-term Debt.

The interest rate swap agreements were designated as cash flow hedges, wherein the effective portion of the movements in fair value is recognized in other comprehensive income while any ineffective portion is recognized immediately in our consolidated income statement. As at September 30, 2013, mark-to-market losses amounting to Php27 million was recognized in other comprehensive income and Php3 million was recorded as interest accrual on the interest swap with aggregate notional amount of US\$167 million. There was no ineffective portion in the fair value movements recognized in the consolidated statement of income for the nine months ended September 30, 2013.

# ePLDT Group

On July 10, 2012, ePLDT entered into an equity forward sale contract amounting to Php4,310 million in order to hedge its exposure to the volatility of the share price of Philweb when it sold its investment in 398 million common shares of Philweb at a certain price in four tranches, which is expected to be completed by the end of 2013. The first and second tranches were transacted on July 13, 2012 and October 19, 2012, respectively. Each tranche was for 93.5 million common shares and for a total purchase price of Php1 billion each. On June 13, 2013, the third tranche was paid for 93.5 million common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the third tranche, or Php1 billion. On December 13, 2013, the fourth tranche was paid for 118 billion common shares for a purchase price of Php10.70 per share plus 3% per annum of the total thereof calculated from December 12, 2012 to the actual date of payment of the fourth tranche, or Php1.296 billion. See Note 3 - Management's Use of Accounting Judgments, Estimates and Assumptions - Assets Held-for-Sale and Discontinued Operations and Note 10 - Investments in Associates, Joint Ventures and Deposits -Investment of ePLDT in Philweb. The mark-to-market losses recognized in the profit or loss at the inception of this contract amounted to Php727 million. The gains and losses from the inception of this contract will be recognized in cumulative translation adjustments and are expected to be realized in profit or loss upon occurrence of each tranche. The mark-to-market loss transferred from cumulative translation adjustment to profit or loss in relation with the first and second tranches amounted to Php387 million and was recognized as a reduction on gain of sale of Philweb shares presented as part of other income in our consolidated income statements. The mark-to-market losses as at September 30, 2013 for the remaining tranche amounted to Php6 million, with Php213 million recognized in cumulative translation adjustments, Php727 million recognized in profit or loss in 2012, representing losses at the inception of the contract, and Php5 million recognized in profit or loss, representing the ineffective portion of the loss in the fair value of the contract as at September 30, 2013. The mark-to-market losses as at December 31, 2012 for the remaining two tranches amounted to Php348 million, with Php44 million recognized in cumulative translation adjustments. Php727 million recognized in profit or loss, representing losses at the inception of the contract, and Php3 million recognized in profit or loss, representing the ineffective portion of the loss in the fair value of the contract as at December 31, 2012.

# PGIH

On various dates in 2013, PGIH entered into short-term U.S. dollar forward foreign exchange sale contracts to hedge proceeds from the sale of BPO segment. There were no outstanding forward foreign exchange contracts as at September 30, 2013.

# SPi Group

In February and March 2011, SPi CRM and SPi entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of monthly dollar denominated revenues and peso denominated expenses, respectively, maturing March 2011 up to October 2012. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly dollar revenues and monthly peso expenses hedged.

On December 6, 2011, SPi CRM changed its functional currency from Philippine peso to U.S. dollar resulting for all its outstanding hedges to become ineffective starting from that date and mark-to-market gains and losses thereafter are recognized in profit or loss. The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges with notional amounts of US\$24 million and US\$29 million, respectively, amounted to Php9 million as at January 1, 2012. In January 2012, SPi CRM pre-terminated all outstanding ineffective hedges.

In March 2012, SPi CRM entered into several forward foreign exchange contracts with various financial institutions to hedge a portion of its monthly peso denominated expenses maturing from June 29, 2012 to December 26, 2013. The gains and losses on such contracts are expected to be recognized in profit or loss upon occurrence of the monthly peso expenses hedged.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts that were designated as hedges and presented as part of derivative financial liabilities under liabilities directly associated with assets classified as held-for-sale with notional amount of US\$55 million, amounted to Php61 million as at December 31, 2012. See Note 2 – Summary of Significant Accounting Policies – Discontinued Operations.

The mark-to-market gains of SPi CRM and SPi's outstanding forward exchange contracts were no longer included in our consolidated financial statements since April 30, 2013, which is the closing date of the sale of our BPO segment.

# Financial Risk Management Objectives and Policies

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

# Liquidity Risk

Our exposure to liquidity risk refers to the risk that our financial liabilities are not reviewed in a timely manner and that our working capital requirements and planned capital expenditures are not met.

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-term and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have undrawn credit facilities amounting to US\$78 million, or Php3,375 million, as at September 30, 2013 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php29,779 million and Php595 million, respectively, as at September 30, 2013. See *Note* 15 – Cash and Cash Equivalents.

The following table discloses a summary of maturity profile of our financial assets based on our consolidated undiscounted claims outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012:

|   | Total  | Less than<br>1 year | 1-3 years      | 3-5 years | More tha<br>5 years |
|---|--------|---------------------|----------------|-----------|---------------------|
|   |        |                     | (in million pe | ,         |                     |
| September 30, 2013 (Unaudited)                                |        |                     |                |           |                     |
| Loans and receivables:  | 67,254 | 64,642              | 992            | 1,479     | 141                 |
| Advances and other noncurrent assets                          | 10,300 | 7,993               | 992            | 1,174     | 141                 |
| Cash equivalents  | 25,349 | 25,349              | -              | -         | -                   |
| Short-term investments  | 24     | 24                  | -              | -         | -                   |
| Investment in debt securities and other long-term investments | 305    | -                   | _              | 305       | _                   |
| Retail subscribers  | 12,125 | 12.125              | -              | _         | -                   |
| Corporate subscribers   | 8,220  | 8,220               | _              | -         | -                   |
| Foreign administrations                                       | 5,763  | 5,763               | _              | _         | _                   |
| Domestic carriers   | 1.425  | 1,425               | _              | _         | _                   |
| Dealers, agents and others                                    | 3,743  | 3,743               | _              | _         | -                   |
| Available-for-sale financial investments                      | 5.673  | -                   | _              | _         | 5.673               |
| Financial instruments at FVPL:                                | 571    | 571                 | _              | _         | - 0,070             |
| Short-term investments  | 571    | 571                 | _              | _         | _                   |
| HTM investments:  | 564    | 91                  | _              | _         | 473                 |
| Investment in debt securities and other long-term investments | 564    | 91                  | _              | _         | 473                 |
| Total   | 74.062 | 65.304              | 992            | 1.479     | 6,287               |
|   | ,      | ;                   |                | .,        | -,                  |
| December 31, 2012 (Audited)<br>Loans and receivables:         | 70,437 | 69.158              | 686            | 453       | 140                 |
| Advances and other noncurrent assets                          | 8,989  | 7,915               | 686            | 248       | 140<br>140          |
|   | ,      | ,                   |                |           | 140                 |
| Cash equivalents  | 31,550 | 31,550              | -              | -         | -                   |
| Short-term investments  | 24     | 24                  | -              | _         | -                   |
| Investment in debt securities and other long-term investments | 205    | -                   | -              | 205       | -                   |
| Retail subscribers  | 10,568 | 10,568              | -              | -         | -                   |
| Corporate subscribers   | 8,100  | 8,100               | -              | -         | -                   |
| Foreign administrations                                       | 4,960  | 4,960               | -              | -         | -                   |
| Domestic carriers   | 1,707  | 1,707               | -              | -         | -                   |
| Dealers, agents and others                                    | 4,334  | 4,334               | -              | -         | -                   |
| Available-for-sale financial investments                      | 5,651  | -                   | -              | -         | 5,651               |
| Financial instruments at FVPL:                                | 550    | 550                 | -              | -         | -                   |
| Short-term investments  | 550    | 550                 | -              | -         | -                   |
| HTM investments:  | 150    | 150                 | -              | -         | -                   |
| Investment in debt securities and other long-term investments | 150    | 150                 | -              | -         | -                   |
| Total   | 76,788 | 69,858              | 686            | 453       | 5,791               |
| January 1, 2012 (Audited)                                     |        |                     |                |           |                     |
| Loans and receivables:  | 73,626 | 72,479              | 899            | 201       | 47                  |
| Advances and other noncurrent assets                          | 1,165  | 18                  | 899            | 201       | 47                  |
| Cash equivalents  | 41,420 | 41,420              | -              | _         | _                   |
| Short-term investments  | 24     | 24                  | _              | _         | _                   |
| Retail subscribers  | 11,302 | 11,302              | _              | _         | _                   |
| Corporate subscribers   | 9,200  | 9,200               | _              | _         | _                   |
| Foreign administrations                                       | 4,961  | 4,961               | _              | _         | _                   |
| Domestic carriers   | 1.323  | 1,323               | _              | _         | _                   |
| Dealers, agents and others                                    | 4,231  | 4,231               | -              | _         | _                   |
| Available-for-sale financial investments                      | 7,181  | 4,231               | _              | _         | 7,181               |
| Financial instruments at FVPL:                                | 534    | -<br>534            | _              | _         | 7,101               |
| Short-term investments  | 534    | 534<br>534          | _              | _         | _                   |
| HTM investments:  | 508    | 358                 | _<br>150       | -         | -                   |
|   |        |                     |                | _         | -                   |
| Investment in debt securities and other long-term investments | 508    | 358                 | 150            |           | -                   |
| Total   | 81,849 | 73,371              | 1,049          | 201       | 7,228               |

The following table discloses a summary of maturity profile of our financial liabilities based on our consolidated contractual undiscounted obligations outstanding as at September 30, 2013, December 31, 2012 and January 1, 2012:

|   |                |                 | ments Due by Per                | iod            |                |
|---|----------------|-----------------|---------------------------------|----------------|----------------|
|   | Tatal          | Less than       | 1 0                             | 0 E            | More tha       |
|   | Total          | 1 year          | 1-3 years<br>(in million pesos) | 3-5 years      | 5 years        |
| September 30, 2013 (Unaudited)                                  |                |                 | (11111111011 pesos)             |                |                |
| Debt <sup>(1)</sup> :   | 131,128        | 2,508           | 54,296                          | 40,118         | 34,206         |
| Principal   | 109,795        | 2,316           | 41,967                          | 35,980         | 29,532         |
| Interest  | 21,333         | 192             | 12,329                          | 4,138          | 4,674          |
| Lease obligations:  | 13,102         | 7.112           | 3,176                           | 2,014          | 800            |
| Operating lease   | 13,087         | 7,110           | 3,163                           | 2,014          | 800            |
| Finance lease   | 15             | 2               | 13                              | _,             |                |
| Unconditional purchase obligations <sup>(2)</sup>               | 224            | 62              | 43                              | 44             | 75             |
| Other obligations:  | 102,977        | 79,046          | 13,075                          | 8,803          | 2,055          |
| Derivative financial liabilities <sup>(3)</sup> :               | 2,527          | 99              | 986                             | 1,442          | 2,000          |
| Long-term currency swap   | 2,316          | -               | 893                             | 1,423          | _              |
| Interest rate swap  | 205            | 93              | 93                              | 19             | _              |
| Equity forward sale contract                                    | 6              | 6               | -                               | -              | _              |
| Various trade and other obligations:                            | 100,450        | 78,947          | 12,089                          | 7,361          | 2,055          |
| Suppliers and contractors                                       | 42,721         | 23,901          | 11,500                          | 7,320          | 2,000          |
| Utilities and related expenses                                  | 29,982         | 29,862          | 93                              | 6              | 21             |
| Liability from redemption of preferred shares                   | 7,961          | 7,961           | -                               | -              | 21             |
| Employee benefits   | 6,812          | 6,812           | -                               | -              | -              |
| Customers' deposits   | 2,555          | 0,012           | 488                             | 35             | 2,032          |
| Carriers  | 2,003          | 2,003           | 400                             | - 35           | 2,032          |
|   | ,              | ,               | -                               | _              | -              |
| Dividends   | 1,054          | 1,054           | - 8                             | -              | -              |
| Others Total contractual obligations                            | 7,362          | 7,354<br>88,728 | 70,590                          | 50,979         | 37,136         |
| Total contractual obligations                                   | 247,431        | 00,720          | 70,590                          | 50,979         | 37,130         |
| December 31, 2012 (As Adjusted – Note 2)                        |                |                 |                                 |                |                |
| Debt <sup>(1)</sup> :   | 144,467        | 3,981           | 56,353                          | 48,417         | 35,716         |
| Principal   | 117,115        | 3,641           | 41,469                          | 42,492         | 29,513         |
| Interest  | 27,352         | 340             | 14,884                          | 5,925          | 6,203          |
| Lease obligations:  | 13,655         | 7.059           | 3,641                           | 1,832          | 1,123          |
| Operating lease   | 13,634         | 7,057           | 3,623                           | 1,831          | 1,123          |
| Finance lease   | 21             | 2               | 18                              | 1              | .,             |
| Unconditional purchase obligations <sup>(2)</sup>               | 413            | 167             | 246                             | _              | _              |
| Other obligations:  | 105,492        | 80.443          | 12,505                          | 10,515         | 2,029          |
| Derivative financial liabilities <sup>(3)</sup> :               | 3,507          | 418             | 871                             | 2,218          | 2,023          |
| Long-term currency swap   | 2,968          | 410             | 770                             | 2,198          |                |
| Equity forward sale contract                                    | 348            | 348             | -                               | 2,130          |                |
| Interest rate swap  | 191            | 70              | 101                             | 20             | -              |
| Various trade and other obligations:                            | 101,985        | 80,025          | 11,634                          | 8,297          | 2,029          |
|   | ,              | ,               | 10,942                          | ,              | 2,029          |
| Suppliers and contractors                                       | 45,331         | 26,128          | ,                               | 8,261          | _              |
| Utilities and related expenses                                  | 31,305         | 31,098          | 202                             | 5              |                |
| Liability from redemption of preferred shares                   | 7,884          | 7,884           | -                               | -              | -              |
| Employee benefits   | 5,488          | 5,488           | -                               | -              | -              |
| Customers' deposits   | 2,529          | -               | 469                             | 31             | 2,029          |
| Carriers  | 2,007          | 2,007           | -                               | -              | -              |
| Dividends   | 827            | 827             | -                               | -              | -              |
| Others  | 6,614          | 6,593           | 21                              | -              | -              |
| Total contractual obligations                                   | 264,027        | 91,650          | 72,745                          | 60,764         | 38,868         |
| January 1, 2012 (As Adjusted Note 2)                            |                |                 |                                 |                |                |
| January 1, 2012 (As Adjusted – Note 2)<br>Debt <sup>(1)</sup> : | 142,271        | 16,378          | 62,213                          | 39,476         | 24,204         |
| Principal   | 119.410        | 15,348          | 48,141                          | 33,971         | 24,204         |
|   | - / -          |                 |                                 |                |                |
| Interest  | 22,861         | 1,030           | 14,072                          | 5,505<br>2,998 | 2,254<br>3,152 |
| Lease obligations:  | 17,826         | 6,352           | 5,324                           |                |                |
| Operating lease   | 17,810         | 6,349           | 5,317                           | 2,992          | 3,152          |
| Finance lease   | 16             | 3               | 7                               | 6              | -              |
| Unconditional purchase obligations <sup>(2)</sup>               | 674            | 279             | 263                             | 132            |                |
| Other obligations:  | 91,828         | 66,223          | 14,976                          | 7,072          | 3,557          |
| Derivative financial liabilities <sup>(3)</sup> :               | 3,789          | 589             | 1,026                           | 701            | 1,473          |
| Long-term currency swap   | 3,552          | 500             | 907                             | 673            | 1,472          |
| Interest rate swap  | 237            | 89              | 119                             | 28             | 1              |
| Various trade and other obligations:                            | 88,039         | 65,634          | 13,950                          | 6,371          | 2,084          |
| Suppliers and contractors                                       | 45,604         | 25,476          | 13,761                          | 6,367          | -              |
| Utilities and related expenses                                  | 23,839         | 23,834          | 5                               | -              | -              |
| Employee benefits   | 4,452          | 4,452           | -                               | -              | -              |
| Dividends   | 2,583          | 2,583           | -                               | -              | -              |
| Customers' deposits   | 2,272          | -               | 184                             | 4              | 2,084          |
|   |                |                 |                                 |                |                |
| Carriers<br>Others  | 1,642<br>7,647 | 1,642<br>7,647  | -                               | -              | -              |

(1) (2)

Consists of long-term debt, including current portion, and notes payable; gross of unamortized debt discount and debt issuance costs. Based on the Amended ATPA with AlL. See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AlL Related Party Agreements: Gross liabilities before any offsetting application. (3)

#### Debt

See Note 20 - Interest-bearing Financial Liabilities - Long-term Debt for a detailed discussion of our debt.

Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment. These lease contracts are subject to certain escalation clauses.

The consolidated future minimum lease commitments payable with non-cancellable operating leases as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|   | September 30,<br>2013 | December 31,<br>2012 | January 1,<br>2012 |
|---|-----------------------|----------------------|--------------------|
|   | (Unaudited)           | (Audi                | ted)               |
|   |                       | (in million pesos)   |                    |
| Within one year                             | 7,205                 | 7,136                | 6,423              |
| After one year but not more than five years | 5,082                 | 5,375                | 8,235              |
| More than five years                        | 800                   | 1,123                | 3,152              |
|   | 13,087                | 13,634               | 17,810             |

Finance Lease Obligations

See Note 20 – Interest-bearing Financial Liabilities – Obligations under Finance Leases for the detailed discussion of our long-term finance lease obligations.

#### Unconditional Purchase Obligations

See Note 24 – Related Party Transactions – Air Time Purchase Agreement between PLDT and AlL Related Agreements for a detailed discussion of PLDT's obligation under the Original and the Amended ATPA.

Under the Amended ATPA, PLDT's aggregate remaining minimum obligation is approximately Php224 million, Php413 million and Php674 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively.

#### Other Obligations - Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits and other related obligations, and various business and operational related agreements. Total obligations under these various agreements amounted to approximately Php100,450 million, Php101,985 million and Php88,039 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

### **Commercial Commitments**

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php29 million, Php342 million and Php913 million as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. The outstanding commitments will expire within one year.

### Collateral

We have not made any pledges with respect to our financial liabilities as at September 30, 2013, December 31, 2012 and January 1, 2012.

# Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange sale and purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative conversion adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at September 30, 2013, December 31, 2012 and January 1, 2012:

|   | September   | 30, 2013           | December 3  | 31, 2012           | January 1   | , 2012             |
|---|-------------|--------------------|-------------|--------------------|-------------|--------------------|
| -   | (Unaud      | ited)              |             | (Auc               | dited)      |                    |
|   | U.S. Dollar | Php <sup>(1)</sup> | U.S. Dollar | Php <sup>(2)</sup> | U.S. Dollar | Php <sup>(3)</sup> |
|   |             |                    | (in milli   | ons)               |             |                    |
| Noncurrent Financial Assets                                     |             |                    |             |                    |             |                    |
| Investment in debt securities and other long-term investment    | s 7         | 305                | 5           | 205                | -           | -                  |
| Derivative financial assets                                     | -           | 22                 | -           | -                  | -           | -                  |
| Advances and other noncurrent assets                            | 1           | 32                 | 1           | 28                 | 2           | 83                 |
| Total noncurrent financial assets                               | 8           | 359                | 6           | 233                | 2           | 83                 |
| Current Financial Assets  |             |                    |             |                    |             |                    |
| Cash and cash equivalents                                       | 169         | 7,344              | 128         | 5,267              | 165         | 7,248              |
| Short-term investments  | 13          | 577                | 14          | 562                | 12          | 540                |
| Trade and other receivables – net                               | 186         | 8,097              | 179         | 7,360              | 215         | 9,445              |
| Derivative financial assets                                     | -           | 1                  | -           | -                  | 8           | 366                |
| Total current financial assets                                  | 368         | 16,019             | 321         | 13,189             | 400         | 17,599             |
| Total Financial Assets  | 376         | 16,378             | 327         | 13,422             | 402         | 17,682             |
| Noncurrent Financial Liabilities                                |             |                    |             |                    |             |                    |
| Interest-bearing financial liabilities – net of current portion | 1.098       | 47.793             | 1.058       | 43,442             | 906         | 39,806             |
| Derivative financial liabilities                                | 45          | 1.962              | 68          | 2,802              | 51          | 2,235              |
| Total noncurrent financial liabilities                          | 1.143       | 49.755             | 1,126       | 46.244             | 957         | 42.041             |
| Current Financial Liabilities                                   | 1,140       | 40,700             | 1,120       | 40,244             | 001         | 42,041             |
| Accounts payable  | 197         | 8.597              | 165         | 6,762              | 198         | 8.688              |
| Accrued expenses and other current liabilities                  | 112         | 4.868              | 166         | 6.832              | 129         | 5.677              |
| Current portion of interest-bearing financial liabilities       | 279         | 12.144             | 221         | 9.065              | 349         | 15.328             |
| Derivative financial liabilities                                | 3           | 111                | 2           | 70                 | 21          | 924                |
| Total current financial liabilities                             | 591         | 25.720             | 554         | 22.729             | 697         | 30.617             |
| Total Financial Liabilities                                     | 1,734       | 75,475             | 1.680       | 68,973             | 1.654       | 72,658             |

The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.54 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at September 30, 2013.
 The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php41.08 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as

The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php41.08 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2012.
 The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as

The exchange rate used to convert the U.S. dollar amounts into Philippine peso was Php43.92 to US\$1.00, the Philippine peso-U.S. dollar exchange rate as quoted through the Philippine Dealing System as at January 1, 2012.

As at November 5, 2013, the Philippine peso-U.S. dollar exchange rate was Php43.31 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities would have decreased in Philippine peso terms by Php312 million as at September 30, 2013.

Approximately 54%, 45% and 47% of our total consolidated debts (net of consolidated debt discount) were denominated in U.S. dollars as at September 30, 2013, December 31, 2012 and January 1, 2012, respectively. Consolidated foreign currency-denominated debt increased to Php59,633 million as at September 30, 2013 from Php52,298 million as at December 31, 2012 and Php53,330 million as at January 1, 2012. See *Note 20 – Interest-bearing Financial Liabilities*. The aggregate notional amount of PLDT's outstanding long-term principal only-currency swap contracts was US\$202 million as at September 30, 2013 and December 31, 2012 and US\$262 million as at January 1, 2012. Consequently, the unhedged portion of our consolidated debt amounts was approximately 46% (or 39%, net of our consolidated U.S. dollar cash balances) as at September 30, 2013 and December 31, 2012, respectively and 37% (or 30%, net of our consolidated U.S. dollar cash balances) as at January 1, 2012.

Approximately, 21% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for each of the nine months ended September 30, 2013 and 2012. Our consolidated expenses denominated in U.S. dollars and/or linked to U.S. dollars was approximately 12% for the nine months ended September 30, 2013 as compared with approximately 13% for the nine months ended September 30, 2012. In this respect, the lower weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues and expenses, and consequently, affects our cash flow from operations in Philippine peso terms.

The Philippine peso depreciated by 5.99% against the U.S. dollar to Php43.54 to US\$1.00 as at September 30, 2013 from Php41.08 to US\$1.00 as at December 31, 2012. As at September 30, 2012, the Philippine peso had appreciated by 4.96% against the U.S. dollar to Php41.74 to US\$1.00 from Php43.92 to US\$1.00 as at December 31, 2011. As a result of our consolidated foreign exchange movements, as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange losses of Php2,004 million for the nine months ended September 30, 2013, while net consolidated foreign exchange gains amounted to Php2,424 million for the nine months ended September 30, 2012. See Note 4 – Operating Segment Information.

Management conducted a survey among our banks to determine the outlook of the Philippine peso-U.S. dollar exchange rate until our next reporting date of December 31, 2013. Our outlook is that the Philippine peso-U.S. dollar exchange rate may weaken/strengthen by 1.02% as compared to the exchange rate of Php43.54 to US\$1.00 as at September 30, 2013. If the Philippine peso-U.S. dollar exchange rate had weakened/strengthened by 1.02% as at September 30, 2013, with all other variables held constant, profit after tax for the nine months ended September 30, 2013 would have been approximately Php356 million higher/lower and our consolidated stockholders' equity as at September 30, 2013 would have been approximately Php353 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on conversion of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at September 30, 2013, December 31, 2012 and January 1, 2012. Financial instruments that are not subject to interest rate risk were not included in the table.

# As at September 30, 2013 (Unaudited)

|                                   |              |              |            |            |              |       |        | Discount/<br>Debt |                 |                   |        |
|-----------------------------------|--------------|--------------|------------|------------|--------------|-------|--------|-------------------|-----------------|-------------------|--------|
|                                   |              |              | In U.S. Do | ollars     |              |       |        | Issuance          | Carrying        |                   | Value  |
|                                   | Below 1 year | 1-2 years    | 2-3 years  | 3-5 years  | Over 5 years | Total | In Php | Cost<br>In Php    | Value<br>In Php | In U.S.<br>Dollar | In Php |
| Assets:                           |              |              |            |            |              |       |        |                   | (in m           | illions)          |        |
| Assets:<br>Investment in Debt Sec | www.         |              |            |            |              |       |        |                   |                 |                   |        |
| Other Long-term Inve              |              |              |            |            |              |       |        |                   |                 |                   |        |
| U.S. Dollar                       | Sunenis      |              | _          | 7          |              | 7     | 305    | _                 | 305             | 7                 | 31     |
| Interest rate                     | -            | -            | -          | 3.5000% to | -            | '     | 305    | -                 | 305             | 1                 | 31     |
| Interest rate                     | _            |              | _          | 4.0000%    | _            | _     | -      |                   | _               | _                 |        |
| Dhilles have David                | 2            | -            | _          |            | - 3          |       |        |                   |                 | 12                | 54     |
| Philippine Peso                   |              | -            | _          | 8          |              | 13    | 564    | -                 | 564             |                   | 54     |
| Interest rate                     | 2.5000%      | -            | -          | 4.2500%    | 4.8370%      | -     | -      | -                 | -               | -                 |        |
| Cash in Bank                      |              |              |            |            |              |       |        |                   | 4 04 4          |                   | 4.04   |
| U.S. Dollar                       | 28           | -            | -          | -          | -            | 28    | 1,214  | -                 | 1,214           | 28                | 1,21   |
| Interest rate                     | 0.0100% to   | -            | -          | -          | -            | -     | -      | -                 | -               | -                 |        |
|                                   | 0.7500%      |              |            |            |              |       |        |                   |                 |                   |        |
| Philippine Peso                   | 57           | -            | -          | -          | -            | 57    | 2,477  | -                 | 2,477           | 57                | 2,47   |
| Interest rate                     | 0.0200% to   | -            | -          | -          | -            | -     | -      | -                 | -               | -                 |        |
|                                   | 2.2500%      |              |            |            |              |       |        |                   |                 |                   |        |
| Other Currencies                  | 3            | -            | -          | -          | -            | 3     | 162    | -                 | 162             | 3                 | 16     |
| Interest rate                     | 0.0100% to   | -            | -          | -          | -            | -     | -      | -                 | -               | -                 |        |
|                                   | 0.5000%      |              |            |            |              |       |        |                   |                 |                   |        |
| Temporary Cash Inve               | stments      |              |            |            |              |       |        |                   |                 |                   |        |
| U.S. Dollar                       | 122          | -            | -          | -          | -            | 122   | 5,324  | -                 | 5,324           | 122               | 5,32   |
| Interest rate                     | 0.2500% to   | -            | -          | -          | -            | -     | -,     | -                 | -,              |                   | -,     |
| interest rate                     | 4.0000%      |              |            |            |              |       |        |                   |                 |                   |        |
| Philippine Peso                   | 460          | _            | _          | _          | _            | 460   | 20.025 | -                 | 20,025          | 460               | 20.02  |
| Interest rate                     | 0.4750% to   | _            | _          | _          | _            | 400   | 20,020 | _                 | 20,020          | 400               | 20,02  |
| Interest rate                     | 4.7500%      |              |            |            |              |       |        |                   |                 |                   |        |
| Short-term Investments            |              |              |            |            |              |       |        |                   |                 |                   |        |
| U.S. Dollar                       | ,<br>13      |              |            |            |              | 13    | 577    | _                 | 577             | 13                | 57     |
| Interest rate                     | 2.2120%      | -            | -          | -          | -            | - 13  | 5//    | -                 | 5//             | 15                | 57     |
|                                   | 2.2120%      | -            | -          | -          | -            | 1     | 18     | -                 | 18              | 1                 |        |
| Philippine Peso                   | 1.5000%      | -            | -          | -          |              | 1     | 18     | -                 | 18              | 1                 | 1      |
| Interest rate                     | 686          |              |            | - 15       | - 3          | 704   |        |                   |                 | 703               |        |
|                                   | 000          | -            | -          | 15         | 3            | 704   | 30,666 | -                 | 30,666          | 703               | 30,65  |
| Liabilities:                      |              |              |            |            |              |       |        |                   |                 |                   |        |
| Long-term Debt                    |              |              |            |            |              |       |        |                   |                 |                   |        |
| Fixed Rate                        |              |              |            |            |              |       |        |                   |                 |                   |        |
| U.S. Dollar Notes                 | _            | _            | _          | 234        | _            | 234   | 10,200 | 70                | 10,130          | 273               | 11,90  |
| Interest rate                     | _            |              | _          | 8.3500%    |              | - 204 | 10,200 | -                 | 10,150          | 2/5               | 11,50  |
| U.S. Dollar Fixed                 | -            | -            | -          | 0.3300 %   | -            | -     | -      | -                 | -               | -                 |        |
|                                   | 2            | 63           | 22         | 31         | 3            | 121   | 5 044  | 71                | E 170           | 121               | E 07   |
| Loans                             |              |              |            |            |              | 121   | 5,244  | /1                | 5,173           | 121               | 5,27   |
| Interest rate                     | 3.7900%      | 1.9000% to   | 1.9000% to | 1.9000% to | 3.9550%      | -     | -      | -                 | -               | -                 |        |
|                                   |              | 3.9550%      | 3.9550%    | 3.9550%    |              |       |        |                   |                 |                   |        |
| Philippine Peso                   | -            | 18           | 131        | 275        | 675          | 1,099 | 47,857 | 32                | 47,825          | 1,173             | 51,07  |
| Interest rate                     | -            | 3.9250% to   | 3.9250% to | 3.9250% to | 3.9250% to   | -     | -      | -                 | -               | -                 |        |
|                                   |              | 6.5000%      | 6.5000%    | 6.5000%    | 6.3462%      |       |        |                   |                 |                   |        |
| Variable Rate                     |              |              |            |            |              |       |        |                   |                 |                   |        |
| U.S. Dollar                       | 25           | 469          | 241        | 287        | -            | 1,022 | 44,499 | 169               | 44,330          | 1,022             | 44,49  |
| Interest rate                     | 0.3000% to   | 0.3000% to   | 0.3000% to | 0.3000% to | -            | -     | -      | -                 | -               | -                 |        |
|                                   | 1.8500% over | 1.9000% over | 1.9000%    | 1.9000%    |              |       |        |                   |                 |                   |        |
|                                   | LIBOR        | LIBOR        | over LIBOR | over LIBOR |              |       |        |                   |                 |                   |        |
| Philippine Peso                   | 26           | 20           | -          | -          | -            | 46    | 1,995  | -                 | 1,995           | 46                | 1,99   |
| Interest rate                     | PHP PDST-F   | PHP PDST-F   | -          | -          | -            | -     | -      | -                 | -               | -                 | ,      |
|                                   | + 0.3000%    | + 0.3000%    |            |            |              |       |        |                   |                 |                   |        |
|                                   |              |              |            |            |              |       |        |                   |                 |                   |        |

# As at December 31, 2012 (Audited)

|                                       |                       |                       |                       |                       |              |       |        | Discount/<br>Debt |                 |                   |       |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------------|-------|--------|-------------------|-----------------|-------------------|-------|
|                                       |                       |                       | In U.S. Do            | llars                 |              |       |        | Issuance          | Carrying        |                   | Value |
|                                       | Below 1 year          | 1-2 years             | 2-3 years             | 3-5 years             | Over 5 years | Total | In Php | Cost<br>In Php    | Value<br>In Php | In U.S.<br>Dollar | In Ph |
| Assets:                               |                       |                       |                       |                       |              |       |        |                   | (in m           | illions)          |       |
| Investment in Debt Secu               | uritios and           |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Other Long-term Inves                 |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| U.S. Dollar                           | -                     | -                     | -                     | 5                     | -            | 5     | 205    | _                 | 205             | 5                 | 2     |
| Interest rate                         | -                     | -                     | _                     | 4.0000%               | _            | _     |        | -                 |                 | _                 |       |
| Philippine Peso                       | 4                     | -                     | _                     | -                     | _            | 4     | 150    | -                 | 150             | 4                 | 1     |
| Interest rate                         | 7.0000%               |                       | -                     |                       | -            | -     | -      | -                 | -               | -                 |       |
| Cash in Bank                          |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| U.S. Dollar                           | 37                    | -                     | -                     | -                     | -            | 37    | 1,529  | -                 | 1,529           | 37                | 1,5   |
| Interest rate                         | 0.0100% to            | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
|                                       | 0.7500%               |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Philippine Peso                       | 84                    | -                     | -                     | -                     | -            | 84    | 3,445  | -                 | 3,445           | 84                | 3,4   |
| Interest rate                         | 0.1000% to<br>3.0000% | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
| Other Currencies                      | 4                     | -                     | -                     | -                     | -            | 4     | 161    | -                 | 161             | 4                 | 1     |
| Interest rate                         | 0.0100% to            | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
| Turner                                | 0.7500%               |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Temporary Cash Investr<br>U.S. Dollar | nents<br>74           |                       |                       |                       |              | 74    | 3.062  | _                 | 3.062           | 74                |       |
|                                       |                       | -                     | -                     | -                     | _            |       | 3,062  | _                 | 3,062           |                   | 3,0   |
| Interest rate                         | 0.2500% to<br>4.7500% | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
| Philippine Peso                       | 4.7500%               | _                     | _                     | _                     | _            | 694   | 28,488 | _                 | 28,488          | 694               | 28,4  |
| Interest rate                         | 1.1250% to            | _                     | _                     | _                     | _            | - 054 | 20,400 | _                 | 20,400          | - 034             | 20,4  |
| Interest rate                         | 5.0000%               |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Short-term Investments                |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| U.S. Dollar                           | 14                    | -                     | -                     | -                     | -            | 14    | 557    | -                 | 557             | 14                | 5     |
| Interest rate                         | 9.1730%               | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
| Philippine Peso                       | -                     | -                     | -                     | -                     | -            | -     | 17     | -                 | 17              | -                 |       |
| Interest rate                         | 3.0000%               | -                     | -                     | -                     | -            | -     | -      | -                 | -               | -                 |       |
|                                       | 911                   | -                     | -                     | 5                     | -            | 916   | 37,614 | -                 | 37,614          | 916               | 37,6  |
| Liabilities:                          |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Long-term Debt                        |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| Fixed Rate                            |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
| U.S. Dollar Notes                     | -                     | -                     | -                     | 234                   | -            | 234   | 9,623  | 79                | 9,544           | 283               | 11,6  |
| Interest rate                         | -                     | -                     | -                     | 8.3500%               | -            | -     | -      | -                 | -               | -                 |       |
| U.S. Dollar Fixed                     | _                     | a                     |                       |                       | _            | 100   | 10.07  |                   | 15.50           |                   |       |
| Loans                                 | 5                     | 337                   | 23                    | 32                    | 9            | 406   | 16,674 | 1,143             | 15,531          | 410               | 16,8  |
| Interest rate                         | 3.7900%               | 1.9000% to<br>3.9550% | 1.9000% to<br>3.9550% | 1.9000% to<br>3.9550% | 3.9550%      | -     | -      | -                 | -               | -                 |       |
| Philippine Peso                       | _                     | 3.9000%               | 3.9550%               | 522                   | 686          | 1,375 | 56,469 | 45                | 56,424          | 1,475             | 60,5  |
| Interest rate                         | _                     | 4.9110% to            | 4.9110% to            | 4.9110% to            | 4.9110% to   | -     |        | 40                |                 |                   | 00,0  |
|                                       |                       | 7.7946%               | 7.7946%               | 7.7946%               | 7.7946%      |       |        |                   |                 |                   |       |
| Variable Rate                         |                       |                       |                       |                       | 1.1.0.1070   |       |        |                   |                 |                   |       |
| U.S. Dollar                           | 27                    | 312                   | 127                   | 175                   | 23           | 664   | 27,278 | 55                | 27,223          | 664               | 27,2  |
| Interest rate                         | 0.4000% to            | 0.3000% to            | 0.3000% to            | 0.3000% to            | 1.8000%      | -     | -      | -                 | -               | -                 | ,     |
|                                       | 0.5000% over          | 1.9000% over          | 1.9000%               | 1.9000%               | over LIBOR   |       |        |                   |                 |                   |       |
|                                       | LIBOR                 | LIBOR                 | over LIBOR            | over LIBOR            |              |       |        |                   |                 |                   |       |
| Philippine Peso                       | 55                    | 45                    | -                     | 72                    | -            | 172   | 7,071  | 1                 | 7,070           | 172               | 7,C   |
| Interest rate                         | PHP PDST-F            | PHP PDST-F +          | -                     | BSP                   | -            | -     | -      | -                 | -               | -                 |       |
|                                       | + 0.3000%             | 0.3000%               |                       | overnight             |              |       |        |                   |                 |                   |       |
|                                       |                       |                       |                       | rate +                |              |       |        |                   |                 |                   |       |
|                                       |                       |                       |                       |                       |              |       |        |                   |                 |                   |       |
|                                       |                       |                       |                       | 0.3000% to<br>0.5000% |              |       |        |                   |                 |                   |       |

# As at January 1, 2012 (Audited)

|                                   |                       |                       |                         |                         |                         |       |          | Discount/<br>Debt |                 |                   |         |
|-----------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|-------|----------|-------------------|-----------------|-------------------|---------|
|                                   |                       |                       | In U.S. Do              | ollars                  |                         |       |          | Issuance          | Carrying        | Fair              | Value   |
|                                   | Below 1 year          | 1-2 years             | 2-3 years               | 3-5 years               | Over 5 years            | Total | In Php   | Cost<br>In Php    | Value<br>In Php | In U.S.<br>Dollar | In Php  |
| Assets:                           |                       |                       |                         |                         |                         |       |          |                   | (in m           | iillions)         |         |
| Investment in Debt Sec            | urities and           |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Other Long-term Inve              | stments               |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Philippine Peso                   | 8                     | 4                     | -                       | -                       | -                       | 12    | 508      | -                 | 508             | 12                | 516     |
| Interest rate                     | 6.8750%               | 7.0000%               | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
| Cash in Bank<br>U.S. Dollar       | 14                    |                       |                         |                         |                         | 14    | 626      |                   | 626             | 14                | 626     |
| Interest rate                     | 0.0100% to            | _                     | _                       | _                       | _                       | - 14  | 020      | _                 | 020             | -                 | 020     |
|                                   | 0.7663%               |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Philippine Peso                   | 66                    | -                     | -                       | -                       | -                       | 66    | 2,886    | -                 | 2,886           | 66                | 2,886   |
| Interest rate                     | 0.0100% to            | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
| ou o i                            | 3.1500%               |                       |                         |                         |                         | -     |          |                   |                 | -                 |         |
| Other Currencies<br>Interest rate | 5<br>0.0100% to       | -                     | -                       | -                       | -                       | 5     | 218      | _                 | 218             | 5                 | 218     |
| Interest rate                     | 2.0000%               | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
| Temporary Cash Invest             |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| U.S. Dollar                       | 133                   | -                     | -                       | -                       | -                       | 133   | 5,824    | -                 | 5,824           | 133               | 5,824   |
| Interest rate                     | 0.2500% to            | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
|                                   | 1.7000%               |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Philippine Peso                   | 810                   | -                     | -                       | -                       | -                       | 810   | 35,596   | -                 | 35,596          | 810               | 35,596  |
| Interest rate                     | 1.0000% to<br>4.8750% | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
| Short-term Investments            |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| U.S. Dollar                       | , 12                  | -                     | _                       | -                       | -                       | 12    | 540      | -                 | 540             | 12                | 540     |
| Interest rate                     | 3.1020%               | -                     | -                       | -                       | -                       | -     | _        | -                 | _               | -                 | _       |
| Philippine Peso                   | -                     | -                     | -                       | -                       | -                       | -     | 18       | -                 | 18              | -                 | 18      |
| Interest rate                     | 3.5000%               | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
|                                   | 1,048                 | 4                     | -                       | -                       | -                       | 1,052 | 46,216   | -                 | 46,216          | 1,052             | 46,224  |
| Liabilities:<br>Long-term Debt    |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Fixed Rate                        |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| U.S. Dollar Notes                 | 146                   | -                     | -                       | -                       | 234                     | 380   | 16,691   | 124               | 16,567          | 427               | 18,740  |
| Interest rate                     | 11.3750%              | -                     | -                       | -                       | 8.3500%                 | -     | -        | -                 | -               | -                 | -       |
| U.S. Dollar Fixed                 |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Loans                             | -                     | 53                    | 302                     | 28                      | 21                      | 404   | 17,738   | 1,900             | 15,838          | 359               | 15,770  |
| Interest rate                     | -                     | 2.9900% to<br>3.9550% | 2.2500% to<br>3.9550%   | 2.9900% to<br>3.9550%   | 3.9550%                 | -     | -        | -                 | -               | -                 | -       |
| Philippine Peso                   | 121                   | 137                   | 122                     | 590                     | 187                     | 1,157 | 50,818   | 38                | 50,780          | 1,194             | 52,454  |
| Interest rate                     | 5.6250% to            | 5.4692% to            | 5.4692% to              | 5.4963% to              | 5.4963% to              | -     |          | -                 | -               | -                 |         |
|                                   | 6.5708%               | 8.4346%               | 9.1038%                 | 9.1038%                 | 9.1038%                 |       |          |                   |                 |                   |         |
| Variable Rate                     |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| U.S. Dollar                       | 11                    | 242                   | 73                      | 94                      | 58                      | 478   | 20,996   | 71                | 20,925          | 476               | 20,925  |
| Interest rate                     | US\$ LIBOR +          | US\$ LIBOR +          | US\$ LIBOR<br>+ 0.3000% | US\$ LIBOR<br>+ 0.3000% | US\$ LIBOR<br>+ 0.3000% | -     | -        | -                 | -               | -                 | -       |
|                                   | 0.7500%               | 0.3000% to<br>1.8500% | + 0.3000%<br>to 1.8500% | + 0.3000%<br>to 1.8000% | + 0.3000%<br>to 1.8000% |       |          |                   |                 |                   |         |
| Philippine Peso                   | 1                     | 147                   | 20                      | 61                      | 1.000078                | 229   | 10.059   | 3                 | 10,056          | 229               | 10,056  |
| Interest rate                     | PDST-F +              | PDST-F +              | PDST-F +                | BSP                     | -                       | -     | - 10,000 | -                 | -               | -                 | -       |
|                                   | 1.3750%               | 0.3000%               | 0.3000%                 | overnight               |                         |       |          |                   |                 |                   |         |
|                                   |                       |                       |                         | rate +                  |                         |       |          |                   |                 |                   |         |
|                                   |                       |                       |                         | 0.3000% to              |                         |       |          |                   |                 |                   |         |
|                                   |                       |                       |                         | 0.5000%                 |                         |       |          |                   |                 |                   |         |
| Short-term Debt<br>Notes Payable  |                       |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| U.S. Dollar                       | 35                    | _                     | _                       | _                       | _                       | 35    | 1,537    | _                 | 1,537           | 35                | 1,537   |
| Interest rate                     | Bank's                | _                     | _                       | _                       | _                       | - 30  | - 1,007  | _                 | - 1,007         | - 35              | - 1,007 |
|                                   | prime rate            |                       |                         |                         |                         |       |          |                   |                 |                   |         |
| Philippine Peso                   | . 36                  | -                     | -                       | -                       | -                       | 36    | 1,572    | -                 | 1,572           | 36                | 1,572   |
| Interest rate                     | 4.0000%               | -                     | -                       | -                       | -                       | -     | -        | -                 | -               | -                 | -       |
|                                   | 350                   | 579                   | 517                     | 773                     | 500                     | 2,719 | 119,411  | 2,136             | 117,275         | 2,756             | 121,054 |

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of December 31, 2013. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points higher/lower as compared to levels as at September 30, 2013. If U.S. dollar interest rates had been 5 basis points higher/lower as compared to market levels as at September 30, 2013, with all other variables held constant, profit after tax for the nine months ended September 30, 2013 and our consolidated stockholders' equity as at September 30, 2013 would have been approximately Php5 million lower/higher, mainly as a result of higher/lower interest rates had been 5 basis points higher/lower interest rates had been 5 basis points higher/lower as compared to market levels as at September 30, 2013 would have been approximately Php5 million lower/higher, mainly as a result of higher/lower interest rates had been 5 basis points higher/lower as compared to market levels as at September 30, 2013, with all other variables held constant, profit after tax for the nine months ended September 30, 2013, with all other variables held constant, profit after tax for the nine months ended September 30, 2013, with all other variables held constant, profit after tax for the nine months ended September 30, 2013 and our consolidated stockholders' equity as at September 30, 2013 would have been approximately Php11 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

# Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at September 30, 2013, December 31, 2012 and January 1, 2012:

|                                | S                            | eptember 30, 20                                | 13                         | [                            | December 31, 20                                | 12                         |                              | January 1, 2012                                |                            |
|--------------------------------|------------------------------|--|----------------------------|------------------------------|--|----------------------------|------------------------------|--|----------------------------|
|                                |                              | (Unaudited)                                    |                            |                              |  | (Au                        | dited)                       |  |                            |
|                                | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Adjustments* | Net<br>Maximum<br>Exposure | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Adjustments* | Net<br>Maximum<br>Exposure | Gross<br>Maximum<br>Exposure | Collateral and<br>Other Credit<br>Adjustments* | Net<br>Maximum<br>Exposure |
|                                |                              |  |                            |                              | (in million                                    | pesos)                     |                              |  |                            |
| Loans and receivables:         |                              |  |                            |                              |  |                            |                              |  |                            |
| Advances and other             |                              |  |                            |                              |  |                            |                              |  |                            |
| noncurrent assets              | 10,032                       | 1  | 10,031                     | 8,877                        | 12   | 8,865                      | 1,165                        | 13   | 1,152                      |
| Cash and cash equivalents      | 29,779                       | 209  | 29,570                     | 37,161                       | 528  | 36,633                     | 46,057                       | 574  | 45,483                     |
| Short-term investments         | 24                           | -  | 24                         | 24                           | -  | 24                         | 24                           | -  | 24                         |
| Investment in debt securities  |                              |  |                            |                              |  |                            |                              |  |                            |
| and other long-term            |                              |  |                            |                              |  |                            |                              |  |                            |
| investments                    | 305                          | -  | 305                        | 205                          | -  | 205                        |                              |  |                            |
| Foreign administrations        | 5,645                        |  | 5,645                      | 4,861                        |  | 4,861                      | 4,762                        | 69   | 4,693                      |
| Retail subscribers             | 5,102                        | 37   | 5,065                      | 4,079                        | 27   | 4,052                      | 4,038                        | 63   | 3,975                      |
| Corporate subscribers          | 1,505                        | 130  | 1,375                      | 1,963                        | 246  | 1,717                      | 2,708                        | 213  | 2,495                      |
| Domestic carriers              | 1,332                        | -  | 1,332                      | 1,601                        | -  | 1,601                      | 1,212                        | -  | 1,212                      |
| Dealers, agents and others     | 3,224                        | 1  | 3,223                      | 3,875                        | 31   | 3,844                      | 3,525                        | 28   | 3,497                      |
| HTM investments:               |                              |  |                            |                              |  |                            |                              |  |                            |
| Investment in debt securities  |                              |  |                            |                              |  |                            |                              |  |                            |
| and other long-term            |                              |  |                            |                              |  |                            |                              |  |                            |
| investments                    | 564                          | -  | 564                        | 150                          | -  | 150                        | 508                          | -  | 508                        |
| Available-for-sale financial   |                              |  |                            |                              |  |                            |                              |  |                            |
| investments                    | 5,673                        | -  | 5,673                      | 5,651                        | -  | 5,651                      | 7,181                        | -  | 7,181                      |
| Financial instruments at FVPL: |                              |  |                            |                              |  |                            |                              |  |                            |
| Short-term investments         | 571                          | -  | 571                        | 550                          | -  | 550                        | 534                          | -  | 534                        |
| Short-term currency swap       | 1                            | -  | 1                          | -                            | -  | -                          | -                            | -  | -                          |
| Long-term currency swap        | -                            | -  | -                          | -                            | -  | -                          | 356                          | -  | 356                        |
| Derivatives used for hedging:  |                              |  |                            |                              |  |                            |                              |  |                            |
| Forward foreign exchange       |                              |  |                            |                              |  |                            |                              |  |                            |
| contracts                      | -                            | -  | -                          | -                            | -  | -                          | 10                           | -  | 10                         |
| Interest rate swap             | 22                           | -  | 22                         | -                            | -  | -                          | -                            | -  | -                          |
| Total                          | 63,779                       | 378  | 63,401                     | 68,997                       | 844  | 68,153                     | 72,080                       | 960  | 71,120                     |

\* Includes bank insurance, security deposits and customer deposits. We have no collateral held during the periods.

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at September 30, 2013, December 31, 2012 and January 1, 2012:

|  |                            |                          | past due<br>npaired       | Past due but     |          |
|--|----------------------------|--------------------------|---------------------------|------------------|----------|
|  | Total                      | Class A <sup>(1)</sup>   | Class B(2)                | not impaired     | Impaired |
|  |                            |                          | (in million pes           |                  |          |
| September 30, 2013 (Unaudited)   |                            |                          |                           |                  |          |
| Loans and receivables:   | 71,528                     | 41,729                   | 6,736                     | 8,483            | 14,580   |
| Advances and other noncurrent assets   | 10,144                     | 9,957                    | 41                        | 34               | 112      |
| Cash and cash equivalents  | 29,779                     | 28,009                   | 1,770                     | -                | -        |
| Short-term investments   | 24                         | 24                       | -                         | -                | -        |
| Investment in debt securities and other long-term  |                            |                          |                           |                  |          |
| investments  | 305                        | 305                      |                           | -                |          |
| Retail subscribers   | 12,125                     | 1,395                    | 1,650                     | 2,057            | 7,023    |
| Corporate subscribers  | 8,220                      | 450                      | 285                       | 770              | 6,715    |
| Foreign administrations  | 5,763                      | 818                      | 1,444                     | 3,383            | 118      |
| Domestic carriers  | 1,425                      | 224                      | 23                        | 1,085            | 93       |
| Dealers, agents and others   | 3,743                      | 547                      | 1,523                     | 1,154            | 519      |
| Available-for-sale financial investments   | 5,673                      | 172                      | 5,501                     | -                | -        |
| Financial instruments at FVPL <sup>(3)</sup> :   | 572                        | 572                      | -                         | -                | -        |
| Short-term investments   | 571                        | 571                      | -                         | -                | -        |
| Short-term currency swap   | 1<br>564                   | 1<br>564                 | -                         | -                | -        |
| HTM investments:<br>Investment in debt securities and other long-term  | 504                        | 504                      | -                         | -                | -        |
| investments  | 564                        | 564                      | _                         | _                | _        |
| Derivatives used for hedging   | 22                         | 22                       | _                         | -                | _        |
| Interest rate swap   | 22                         | 22                       | _                         | _                |          |
| Total  | 78,359                     | 43,059                   | 12,237                    | 8,483            | 14,580   |
| 10tu   | 10,000                     | 10,000                   | 12,201                    | 0,100            | 11,000   |
| December 31, 2012 (Audited)  |                            |                          |                           |                  |          |
| Loans and receivables:   | 76,048                     | 47,710                   | 6,682                     | 8,254            | 13.402   |
| Advances and other noncurrent assets   | 8,989                      | 8,848                    | 3                         | 26               | 112      |
| Cash and cash equivalents  | 37,161                     | 34,381                   | 2,780                     | -                | -        |
| Short-term investments   | 24                         | 24                       |                           | _                | _        |
| Investment in debt securities and other long-term  |                            |                          |                           |                  |          |
| investments  | 205                        | 205                      | _                         | _                | _        |
| Retail subscribers   | 10,568                     | 967                      | 989                       | 2,123            | 6,489    |
| Corporate subscribers  | 8,100                      | 478                      | 540                       | 945              | 6,137    |
| Foreign administrations  | 4,960                      | 1,043                    | 923                       | 2,895            | 99       |
| Domestic carriers  | 1,707                      | 266                      | 27                        | 1,308            | 106      |
| Dealers, agents and others   | 4,334                      | 1,498                    | 1,420                     | 957              | 459      |
| Available-for-sale financial investments   | 5,651                      | 159                      | 5,492                     | -                | _        |
| Financial instruments at FVPL <sup>(3)</sup> :   | 550                        | 550                      | · –                       | -                | -        |
| Short-term investments   | 550                        | 550                      | -                         | -                | -        |
| HTM investments:   | 150                        | 150                      | -                         | _                | _        |
| Investment in debt securities and other long-term  |                            |                          |                           |                  |          |
| investments  | 150                        | 150                      | -                         | -                | -        |
| Total  | 82,399                     | 48,569                   | 12,174                    | 8,254            | 13,402   |
|  |                            |                          |                           |                  |          |
| January 1, 2012 (Audited)  |                            |                          |                           |                  |          |
| Loans and receivables:   | 78,263                     | 51,689                   | 5,117                     | 6,685            | 14,772   |
| Advances and other noncurrent assets   | 1,165                      | 1,128                    | 37                        | -                | -        |
| Cash and cash equivalents  | 46,057                     | 44,885                   | 1,172                     | -                | -        |
| Short-term investments   | 24                         | 24                       | -                         | -                | -        |
| Retail subscribers   | 11,302                     | 1,449                    | 1,050                     | 1,539            | 7,264    |
| Corporate subscribers  | 9,200                      | 974                      | 375                       | 1,359            | 6,492    |
| Foreign administrations  | 4,961                      | 1,309                    | 1,242                     | 2,211            | 199      |
| Domestic carriers  | 1,323                      | 215                      | 24                        | 973              | 111      |
| Dealers, agents and others   | 4,231                      | 1,705                    | 1,217                     | 603              | 706      |
| LITA in contra antes   | 508                        | 508                      | -                         | -                | -        |
| HTM investments:   |                            |                          |                           |                  |          |
| Investment in debt securities and other long-term  |                            |                          | _                         | _                | -        |
| Investment in debt securities and other long-term<br>investments   | 508                        | 508                      | _                         |                  |          |
| Investment in debt securities and other long-term<br>investments<br>Available-for-sale financial investments   | 7,181                      | 150                      | 7,031                     | -                | -        |
| Investment in debt securities and other long-term<br>investments<br>Available-for-sale financial investments<br>Financial instruments at FVPL <sup>©</sup> :   | 7,181<br>890               | 150<br>890               | 7,031                     |                  | -        |
| Investment in debt securities and other long-term<br>investments<br>Available-for-sale financial investments<br>Financial instruments at FVPL <sup>®</sup> :<br>Short-term investments               | 7,181<br>890<br>534        | 150<br>890<br>534        | 7,031<br>_<br>_           | -<br>-<br>-      |          |
| Investment in debt securities and other long-term<br>investments<br>Available-for-sale financial investments<br>Financial instruments at FVPL®:<br>Short-term investments<br>Long-term currency swap | 7,181<br>890<br>534<br>356 | 150<br>890<br>534<br>356 | 7,031<br>-<br>-<br>-      | -<br>-<br>-<br>- |          |
| Investment in debt securities and other long-term<br>investments<br>Available-for-sale financial investments<br>Financial instruments at FVPL <sup>®</sup> :<br>Short-term investments               | 7,181<br>890<br>534        | 150<br>890<br>534        | 7,031<br>-<br>-<br>-<br>- | -<br>-<br>-<br>- |          |

(1)

(2)

This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review. This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A. Gross receivables from counterparties, before any offsetting arrangements. (3)

The aging analysis of past due but not impaired class of financial assets as at September 30, 2013, December 31, 2012 and January 1, 2012 are as follows:

|  |                |                                  | Pas         |            |              |            |
|--|----------------|----------------------------------|-------------|------------|--------------|------------|
|  | Total          | Neither past due<br>nor impaired | 1-60 days   | 61-90 days | Over 91 days | Impaire    |
|  |                |                                  | (in million | pesos)     |              |            |
| September 30, 2013 (Unaudited)<br>Loans and receivables:                       | 71,528         | 48,465                           | 3,697       | 981        | 3,805        | 14,580     |
| Advances and other noncurrent  | ,<br>          | ,                                |             |            | ,            |            |
| assets   | 10,144         | 9,998                            | -           | -          | 34           | 112        |
| Cash and cash equivalents  | 29,779         | 29,779                           | -           | -          | -            | -          |
| Short-term investments<br>Investment in debt securities<br>and other long-term | 24             | 24                               | -           | -          | -            | -          |
| investments  | 305            | 305                              | -           | -          | -            | -          |
| Retail subscribers   | 12,125         | 3,045                            | 1,738       | 165        | 154          | 7,023      |
| Corporate subscribers  | 8,220          | 735                              | 357         | 127        | 286          | 6,715      |
| Foreign administrations  | 5,763          | 2,262                            | 688         | 485        | 2,210        | 118        |
| Domestic carriers  | 1,425          | 247                              | 117         | 152        | 816          | 93         |
| Dealers, agents and others<br>Available-for-sale financial                     | 3,743          | 2,070                            | 797         | 52         | 305          | 519        |
| investments  | 5,673          | 5,673                            | -           | -          | -            | -          |
| Financial instruments at FVPL:<br>Short-term investments                       | 572<br>571     | <i>57</i> 2<br>571               | -           | -          | -            | -          |
| Short-term currency swap   | 1              | 1                                | _           | -          | -            | _          |
| HTM investments:   | 564            | 564                              | -           | -          | -            | -          |
| and other long-term  |                |                                  |             |            |              |            |
| investments  | 564            | 564                              | -           | -          | -            | -          |
| Derivatives used for hedging:  | 22<br>22       | 22<br>22                         | -           | -          | -            | -          |
| Interest rate swap Total   | 78,359         | 55,296                           | 3,697       | 981        | 3,805        | 14,580     |
| Total  | 70,000         | 55,250                           | 3,037       | 301        | 3,805        | 14,500     |
| December 31, 2012 (Audited)  | 70.040         | 54.000                           | 0.017       | 1.070      | 4 150        | 10,400     |
| Loans and receivables:<br>Advances and other noncurrent                        | 76,048         | 54,392                           | 3,017       | 1,079      | 4,158        | 13,402     |
| assets   | 8,989          | 8,851                            | _           | _          | 26           | 112        |
| Cash and cash equivalents  | 37,161         | 37,161                           | _           | _          | 20           | -          |
| Short-term investments   | 24             | 24                               | _           | _          | _            | _          |
| Investment in debt securities<br>and other long-term                           |                |                                  |             |            |              |            |
| investments  | 205            | 205                              | -           | -          | -            | -          |
| Retail subscribers   | 10,568         | 1,956                            | 1,363       | 270        | 490          | 6,489      |
| Corporate subscribers  | 8,100          | 1,018                            | 351         | 198        | 396          | 6,137      |
| Foreign administrations<br>Domestic carriers                                   | 4,960<br>1,707 | 1,966<br>293                     | 645<br>174  | 452<br>144 | 1,798<br>990 | 99<br>106  |
| Dealers, agents and others   | 4,334          | 293                              | 484         | 144        | 458          | 459        |
| Available-for-sale financial   | 1,001          | 2,010                            | 101         | 10         | 100          | 100        |
| investments  | 5,651          | 5,651                            | -           | -          | -            | -          |
| Financial instruments at FVPL:   | 550            | 550                              | -           | -          | -            | -          |
| Short-term investments   | 550            | 550                              | -           | -          | -            | -          |
| HTM investments:<br>Investment in debt securities                              | 150            | 150                              | -           | -          | -            | -          |
| and other long-term  | 450            | 150                              |             |            |              |            |
| investments<br>Total   | 150<br>82.399  | 150<br>60.743                    | 3,017       | 1,079      | 4,158        | 13,402     |
| Total  | 02,399         | 00,743                           | 3,017       | 1,079      | 4,100        | 13,402     |
| lanuary 1, 2012 (Audited)  | 70.000         | 50.000                           | 0.007       | 1.000      | 0.500        | 11770      |
| Loans and receivables:<br>Advances and other noncurrent                        | 78,263         | 56,806                           | 3,087       | 1,068      | 2,530        | 14,772     |
| assets   | 1,165          | 1,165                            | _           | _          | _            | _          |
| Cash and cash equivalents  | 46,057         | 46,057                           | -           | -          | -            | -          |
| Short-term investments   | 24             | 24                               | -           | -          | -            | -          |
| Retail subscribers   | 11,302         | 2,499                            | 1,202       | 226        | 111          | 7,264      |
| Corporate subscribers  | 9,200          | 1,349                            | 706         | 263        | 390          | 6,492      |
| Foreign administrations  | 4,961          | 2,551                            | 897         | 282        | 1,032        | 199        |
| Domestic carriers<br>Dealers, agents and others                                | 1,323<br>4,231 | 239<br>2,922                     | 100<br>182  | 98<br>199  | 775<br>222   | 111<br>706 |
| Available-for-sale financial   |                |                                  | 102         | 199        | 222          | 100        |
| investments<br>Financial instruments at FVPL:                                  | 7,181<br>890   | 7,181<br>890                     | -           | -          | -            | -          |
| Short-term investments   | 890<br>534     | 890<br>534                       | _           | _          | _            | _          |
| Long-term currency swap  | 356            | 356                              | _           | _          | _            | _          |
| HTM investments:<br>Investment in debt securities                              | 508            | 508                              | -           | -          | -            | -          |
| and other long-term  |                |                                  |             |            |              |            |
| investments  | 508            | 508                              | -           | -          | -            | -          |
| Derivatives used for hedging:<br>Forward foreign exchange                      | 10             | 10                               | -           | -          | -            | -          |
|  | 10             | 10                               | _           | _          |              | _          |
| contracts  | 10             | 10                               | -           |            | _            |            |

### Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

#### Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. We also recognize an impairment for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between us and the subscriber. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

#### Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core EPS. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We did not buy back any shares of common stock for the nine months ended September 30, 2013.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated 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). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at September 30, 2013, December 31, 2012 and January 1, 2012:

|   | September 30,<br>2013    | December 31,<br>2012 | January 1<br>2012 |  |
|---|--------------------------|----------------------|-------------------|--|
|   | (Unaudited) (As Adjusted |                      | d – Note 2)       |  |
|   |                          | (in million pesos)   |                   |  |
| Long-term debt, including current portion (Note 20) | 109,453                  | 115,792              | 114,166           |  |
| Notes payable (Note 20)                             | -                        | -                    | 3,109             |  |
| Total consolidated debt                             | 109,453                  | 115,792              | 117,275           |  |
| Cash and cash equivalents (Note 15)                 | (29,779)                 | (37,161)             | (46,057)          |  |
| Short-term investments                              | (595)                    | (574)                | (558)             |  |
| Net consolidated debt                               | 79,079                   | 78,057               | 70,660            |  |
| Equity attributable to equity holders of PLDT       | 139,337                  | 145,550              | 153,860           |  |
| Net consolidated debt to equity ratio               | 57%                      | 54%                  | 46%               |  |

# 28. Cash Flow Information

The table below shows non-cash activities for the nine months ended September 30, 2013 and 2012:

|  | 2013        | 2012     |
|--|-------------|----------|
|  | (Unau       | dited)   |
|  | (in millior | i pesos) |
| Recognition of asset retirement obligations (Note 21)                          | 25          | 48       |
| Shares issued for settlement of the purchase price of Digitel shares           |             |          |
| tendered by the noncontrolling Digitel stockholders                            | -           | 4,401    |
| Liability from redemption of preferred shares which consists of the following: |             |          |
| Preferred shares redeemed (Note 19)  | -           | 4,029    |
| Unclaimed dividends from stock agent form part of trust account                | -           | 2,323    |
| Unpaid dividends for preferred shares redeemed                                 | -           | 1,821    |



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BOA/PRC Reg. No. 0001, December 28, 2012, valid until December 31, 2015 SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015

# **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors Philippine Long Distance Telephone Company Ramon Cojuangco Building Makati Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Long Distance Telephone Company and its subsidiaries as at December 31, 2012, 2011 and January 1, 2011, and for each of the three years in the period ended December 31, 2012, and have issued our report thereon dated January 7, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ramm Le. Aign Ramon D. Dizon

Partner CPA Certificate No. 46047 SEC Accreditation No. 0077-AR-3 (Group A), February 21, 2013, valid until February 20, 2016 Tax Identification No. 102-085-577 BIR Accreditation No. 08-001998-17-2012, April 11, 2012, valid until April 10, 2015 PTR No. 4225167, January 2, 2014, Makati City

January 7, 2014



# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES Schedule A. Financial Assets December 31, 2012

| Name of Issuing Entity and Association of Each<br>Issue | Number of Shares | Amount Shown in the<br>Balance Sheet | Valued Based on<br>Market Quotation at<br>Balance Sheet Date | Income Received<br>and Accrued |
|---|------------------|--------------------------------------|--|--------------------------------|
|   |                  | (In Mil                              | lions)   |                                |
| Available-for-sale financial investments                |                  |                                      |  |                                |
| Beacon preferred shares                                 | 917              | Php5,440                             | N/A  | Php720                         |
| Listed equity securities                                | various          | 89                                   | Php89  |                                |
| Others  | various          | 122                                  | N/A  | 64                             |
|   | -                | Php5,651                             | N/A  | Php784                         |

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

# Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements December 31, 2012

|   | December 2011 | Additions | Collections   | December 201 |
|---|---------------|-----------|---------------|--------------|
|   |               |           | (In Millions) |              |
| Digital Telecommunications Phils., Inc.         | Php34,120     | Php113    | (Php3,153)    | Php31,08     |
| Smart Communications, Inc.                      | 17,061        | 39,253    | (35,634)      | 20,68        |
| Philippine Long Distance Telephone Company      | 808           | 6,233     | (5,739)       | 1,30         |
| Philcom Corporation                             | 1,214         | 14        | (27)          | 1,20         |
| SPi Global Holdings, Inc                        | _             | 411       | -             | 41           |
| SmartBroadband, Inc.                            | 290           | 589       | (490)         | 38           |
| ePLDT, Inc.                                     | 90            | 182       | (92)          | 18           |
| PLDT Global Corporation                         | 329           | 871       | (1,037)       | 16           |
| Pilipinas Global Network Limited                | 44            | 81        | _             | 12           |
| Digitel Mobile Philippines, Inc.                | 1             | 179       | (58)          | 12           |
| PLDT-Maratel, Inc.                              | 37            | 135       | (65)          | 1(           |
| SPi CRM. Inc.                                   | 53            | 421       | (411)         | (            |
| SPi Technologies, Inc.                          | 32            | 105       | (76)          |              |
| PLDT Subic Telecom, Inc.                        | 23            | 55        | (31)          |              |
| Pilipinas Global Network Limited ROHQ Phils.    | -             | 43        | _             |              |
| Plus Intelligent Network, Inc.                  | 68            | 35        | (84)          |              |
| P Converge Data Services, Inc.                  | -             | 27        | (13)          |              |
| PLDT Clark Telecom. Inc.                        | 11            | 28        | (28)          |              |
| Pilipinas Global Network Limited US             | -             | 10        | _             |              |
| Bonifacio Communications Corporation            | 22            | 22        | (35)          |              |
| ePDS. Inc.                                      | -             | 8         | _             |              |
| Smart Hub Incorporated                          | 2             | 13        | (10)          |              |
| PLDT (SG) Pte Ltd                               | 4             | 1         | _             |              |
| ACeS Philippines Cellular Satellite Corporation | 4             | 4         | (4)           |              |
| -Contacts Corporation                           | 6             | 30        | (33)          |              |
| BayanTrade                                      | 1             | 6         | (5)           |              |
| Infocom Technologies, Inc.                      | 9             | 13        | (20)          |              |
| PLDT (HK) Limited                               | _             | 2         | _             |              |
| Primeworld Digital Systems, Inc.                | _             | 26        | (24)          |              |
| Chikka Holdings Limited                         | _             | 4         | (3)           |              |
| netGames, Inc.                                  | 1             | 3         | (3)           |              |
| Pilipinas Global Network Limited Canada         | _             | 1         | _             |              |
| Mabuhay Investment Corporation                  | 1             | -         | (1)           |              |
| mySecureSign, Inc                               | _             | 1         | (1)           |              |
| SPi Vietnam Company Ltd                         | 1             | -         | (1)           |              |
| Wolfpac Mobile, Inc                             | 4             | (3)       | (3)           |              |
|   | Php54.236     | Php48.916 | (Php47.081)   | Php56.07     |

All receivables eliminated during the consolidation of financial statements are classified as current. There were no receivables written off during the year.

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES Schedule D. Goodwill and Intangible Assets December 31, 2012

| Description                            | Beginning<br>Balances <sup>(1)</sup> | Additions<br>At Cost | Charged toCost<br>and Expenses <sup>(2)</sup> | Charged<br>to Other<br>Accounts | Other Changes<br>Additions<br>(Deductions) <sup>(3)</sup> | Ending<br>Balance |
|--|--------------------------------------|----------------------|---|---------------------------------|---|-------------------|
|  |                                      |                      | (In Millions)                                 |                                 |   |                   |
| Intangible Assets with definite life   |                                      |                      |   |                                 |   |                   |
| Customer list                          | Php4,871                             | Php-                 | (Php778)                                      | Php263                          | (Php352)  | Php4,004          |
| Franchise                              | 3,016                                | -                    | (217)   | -                               | -   | 2,799             |
| Spectrum                               | 616                                  | -                    | (80)  | -                               | -   | 536               |
| Licenses                               | 79                                   | -                    | (7)   | -                               | 1   | 73                |
| Others                                 | 116                                  | -                    | (19)  | (3)                             | (1)   | 93                |
| Intangible Assets with indefinite life |                                      |                      |   |                                 |   |                   |
| Trademark                              | 4,505                                | -                    | -   | -                               | -   | 4,505             |
|  | 13,203                               | -                    | (1,101)                                       | 260                             | (352)   | 12,010            |
| Goodwill                               | 70,100                               | -                    | _   | (836)                           | (7,024)   | 62,240            |
|  | Php83,303                            | Php-                 | (Php1,101)                                    | (Php576)                        | (Php7,376)  | Php74,250         |

<sup>(1)</sup> The beginning balances were restated to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation with the acquisition of Digitel. See Note 14 –Goodwill and Intangible Assets to the accompanying audited consolidated financial statements.
 <sup>(2)</sup> Represents amortization of intangible assets and impairment.
 <sup>(3)</sup> Represents business combinations, noncontrolling interest adjustments and discontinued operations.

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES Schedule E. Interest-bearing Financial Liabilities December 31, 2012

| Name of Issuer and Type of Obligation                                     | Total Outstanding Balance | Amount shown as Current | Amount shown as Long-term |
|---|---------------------------|-------------------------|---------------------------|
|   |                           | (In Millions)           |                           |
| J.S. Dollar Debts:  |                           |                         |                           |
| Export Credit Agencies-Supported Loans:                                   |                           |                         |                           |
| China Export and Credit Insurance Corporation, or Sinosure                |                           |                         |                           |
| Societe Generale and Calyon US\$23.561 M (Sinosure Loan)                  | Php138                    | Php138                  | Php-                      |
| Societe Generale and Calyon US\$12.707M (Sinosure Loan)                   | 143                       | 72                      | 71                        |
| ING Bank US\$11.993M (Sinosure Loan)                                      | 86                        | 57                      | 29                        |
| ING Bank US\$21.020M (Sinosure Loan)                                      | 305                       | 122                     | 183                       |
| ING Bank US\$12.106M (Sinosure Loan)                                      | 178                       | 71                      | 107                       |
| ING Bank US\$23.778M (Sinosure Loan)                                      | 558                       | 140                     | 418                       |
| ING Bank US\$5.499M (Sinosure Loan)                                       | 129                       | 32                      | 97                        |
| ING Bank US\$4.928M (Sinosure Loan)                                       | 116                       | 29                      | 87                        |
| HSBC US\$15.859M (Sinosure Loan)  | 453                       | 91                      | 362                       |
| HSBC and Credit Suisse US\$24.709M (Sinosure Loan)                        | 725                       | 145                     | 580                       |
| China CITIC Bank US\$49.908M (Sinosure Loan)                              | 1,392                     | 278                     | 1,114                     |
| HSBC and China Development Bank US\$117.306M (Sinosure Loan)              | 4,140                     | 637                     | 3,503                     |
|   | 8,363                     | 1,812                   | 6,551                     |
| Exportkreditnamnden, or EKN   |                           |                         |                           |
| Nordea Bank US\$18.659M   | 220                       | 88                      | 132                       |
| ING Bank US\$18.059M  | 393                       | 262                     | 132                       |
| ING Bank Societe Generale and Calyon US\$51.155M                          | 1,084                     | 202                     | 843                       |
|   | ,                         | 241                     | 971                       |
| ING Bank Societe Generale and Calyon US\$59.177M<br>Nordea Bank US\$22.5M | 1,248<br>197              | 277<br>197              | 971                       |
|   |                           |                         | -                         |
| SEK Nordea US\$49M  | 1,171                     | 276                     | 895                       |
| Unamortized debt issuance cost  | (60)                      | (14)                    | (46                       |
|   | 4,253                     | 1,327                   | 2,926                     |
| EKN and AB Svensk Exportkredit, SEK                                       |                           |                         |                           |
| Nordea Bank and ING Bank N.V. – US\$96.6M                                 | 2,771                     | 480                     | 2,291                     |
|   | 2,771                     | 480                     | 2,291                     |
| Finnvera, Plc, or Finnvera  |                           |                         |                           |
| Finnish Export Credit, Plc (Calyon) – US\$50M                             | 822                       | 411                     | 411                       |
| Finnish Export Credit, Citicorp – US\$50M                                 | 1,027                     | 411                     | 616                       |
| Unamortized debt issuance cost  | (36)                      | (25)                    | (11                       |
|   | 1.813                     | 797                     | 1.016                     |

| Name of Issuer and Type of Obligation   | Total Outstanding Balance | Amount shown as Current | Amount shown as Long-tern |
|---|---------------------------|-------------------------|---------------------------|
| Others  |                           | (In Millions)           |                           |
| ING Bank N.V., Calyon and Societe Generale US\$18.967M (COFACE Loan)            | Php53                     | Php53                   | Php-                      |
| ING Bank US\$6.037M (Atradius)  | 48                        | 32                      | 16                        |
|   | 101                       | 85                      | 16                        |
|   | 101                       |                         | 10                        |
| Fixed Rate Notes  | 0.000                     |                         | 0.000                     |
| Deutsche Bank – US\$300M Notes Due 2017 (8.35%)                                 | 9,623                     | -                       | 9,623                     |
| Unamortized debt issuance cost  | (79)                      | (16)                    | (63)                      |
|   | 9,544                     | (16)                    | 9,560                     |
| Term Loans:   |                           |                         |                           |
| Debt Exchange Facility  | 11,508                    | -                       | 11,508                    |
| Unamortized debt issuance cost  | (1,058)                   |                         | (1,058)                   |
|   | 10,450                    | _                       | 10,450                    |
| GSM Network Expansion Facility  |                           |                         |                           |
| Norddeutsche Landesbank Girozentrale Singapore Branch, or Nord US\$50M          | 205                       | 205                     | -                         |
| ABN AMRO Bank N.V. US\$50M  | 616                       | 411                     | 205                       |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$60M                                  | 2,157                     | 616                     | 1,541                     |
| Finnish Export Credit US\$50M   | 2,054                     | 514                     | 1,540                     |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$50M                                  | 2,054                     | 456                     | 1,598                     |
| Unamortized debt issuance cost  | (45)                      | (19)                    | (26)                      |
|   | 7,041                     | 2,183                   | 4,858                     |
| Others  |                           |                         |                           |
| US\$100M Term Loan Facility with Norddeutsche Landesbank Girozentrale SG Branch | 411                       | 411                     | -                         |
| Bank of the Philippine Islands US\$50M  | 362                       | 362                     | -                         |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. US\$150M                                 | 6,162                     | 1,369                   | 4,793                     |
| Citibank N.A. (Phil branch) US\$25M   | 1,027                     | 181                     | 846                       |
|   | 7,962                     | 2,323                   | 5,639                     |
| Philippine Peso Debts:  |                           |                         |                           |
| Corporate Notes   |                           |                         |                           |
| Smart Fixed Rate Corporate Notes (2007) Php5B                                   | 1,152                     | 12                      | 1,140                     |
| PLDT Fixed Rate Corporate Notes (2010) Php2.5B                                  | 2,500                     | _                       | 2,500                     |
| Smart Fixed Rate Corporate Notes (2010) Php2.5B                                 | 2,500                     | _                       | 2,500                     |
| Smart Fixed Rate Corporate Notes (2011) Php2B                                   | 2,000                     | _                       | 2,000                     |
| PLDT Fixed Rate Corporate Notes (2011) Php5B                                    | 4,950                     | 50                      | 4,900                     |
| PLDT Fixed Rate Corporate Notes (2011) Php5B                                    | 4,950                     | 50                      | 4,900                     |
| Smart Fixed Rate Corporate Notes (2012) Php5.5B                                 | 5,500                     | 55                      | 5,445                     |
| PLDT Fixed Rate Corporate Notes (2012) Php1.5B                                  | 1,500                     | 15                      | 1,485                     |
| PLDT Fixed Rate Corporate Notes (2012) Php8.8B                                  | 8,800                     | 88                      | 8,712                     |
| PLDT Fixed Rate Corporate Notes (2012) Php6.2B                                  | 6,200                     | 62                      | 6,138                     |
| Unamortized debt issuance cost  | (46)                      | (9)                     | (37)                      |
|   | 40,006                    | 323                     | 39,683                    |

| Name of Issuer and Type of Obligation                     | Fotal Outstanding Balance | Amount shown as Current | Amount shown as Long-terr |
|---|---------------------------|-------------------------|---------------------------|
|   |                           | (In Millions)           |                           |
| Term Loans:   |                           |                         |                           |
| Unsecured Term Loans                                      |                           |                         |                           |
| Metrobank Php2.5B   | Php625                    | Php625                  | Php-                      |
| Land Bank of the Philippines Php2.4B                      | 511                       | 511                     | -                         |
| Union Bank of the Philippines Php3B                       | 667                       | 667                     | -                         |
| Philippine National Bank Php2B                            | 470                       | 470                     | -                         |
| Allied Banking Corporation Php1.5B                        | 618                       | 353                     | 265                       |
| Metrobank Php1B   | 438                       | 250                     | 188                       |
| Bank of the Philippine IslandsPhp2B                       | 941                       | 471                     | 470                       |
| Bank of the Philippine IslandsPhp1B                       | 471                       | 236                     | 235                       |
| Metrobank Php1.5B   | 1,500                     | -                       | 1,500                     |
| Philippine National Bank Php2B                            | 1,800                     | -                       | 1,800                     |
| Manufacturers Life Insurance Co. (Phils.), Inc. Php500M   | 500                       | -                       | 500                       |
| Manufacturers Life Insurance Co. (Phils.), Inc. Php300M   | 300                       | -                       | 300                       |
| Metrobank Php1B   | 1,000                     | -                       | 1,000                     |
| BDO Unibank Php2B   | 1,948                     | _                       | 1,948                     |
| Rizal Commercial Banking Corporation Php2B                | 2,000                     | -                       | 2,000                     |
| Land Bank of the Philippines Php3B                        | 3,000                     | 30                      | 2,970                     |
| Land Bank of the Philippines Php2B                        | 2,000                     | 20                      | 1,980                     |
| Land Bank of the Philippines Php1B                        | 1,000                     | 10                      | 990                       |
| Manufacturers Life Insurance Co. (Phils.), Inc. Php200M   | 200                       | _                       | 200                       |
| Philippine American Life and General Insurance Php1B      | 1,000                     | -                       | 1,000                     |
| Land Bank of the Philippines Php3B                        | 1,000                     | 10                      | 990                       |
| Unamortized debt issuance cost                            | (1)                       | (1)                     | _                         |
|   | 21,988                    | 3,652                   | 18,336                    |
| Secured Term Loans  |                           |                         |                           |
| BPI, BPI ATMG and ALFM Peso Bond Fund, Inc. Php1,500M     | 1,500                     | 15                      | 1,485                     |
| BEI, BEI ATNIG and ALI MI FESO BOINT UND, INC. ENDT, SOOM | 1,500                     | 15                      | 1,485                     |
|   | 1,000                     | 10                      | 1,400                     |
| al Long-Term Debt   | 115,792                   | 12,981                  | 102,811                   |
| ligations under Finance Lease                             | 18                        | 8                       | 10                        |
|   | Php115,810                | Php12,989               | Php102,821                |

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY Schedule H. Capital Stock December 31, 2012

| Title of Issue                               | Number of<br>Shares<br>Authorized | Number of<br>Shares Issued<br>And Outstanding | Number of<br>Shares Reserved<br>For Options,<br>Warrants,<br>Conversion and<br>Other Rights | Number of<br>Shares Held<br>By Related<br>Parties | Directors<br>and<br>Key Officers <sup>(1)</sup> | Others |
|--|-----------------------------------|---|---|---|---|--------|
| Preferred Stock                              | 958                               | 186   | (In Millions)   | 36  |   |        |
|  |                                   |   | -   |   | -   | -      |
| Non-Voting Preferred Stock (Php10 par value) | 808                               | 36  | -   | 36  | -   | -      |
| Cumulative Convertible Series HH to II       | 508                               | -   |   | -   | -   | -      |
| Cumulative Nonconvertible Series IV          | 300                               | 36  |   | 36  | -   | -      |
| Voting Preferred Stock(Php1 par value)       | 150                               | 150   |   | 150   | -   | -      |
| Common Stock (Php5 par value)                | 234                               | 216   | -   | <b>99</b> <sup>(2)</sup>                          | -   | 117    |

<sup>(1)</sup> Consists of 363,815 common shares directly and indirectly owned by directors and key officers as at February 28, 2013.
 <sup>(2)</sup> Represents 26% beneficial ownership of First Pacific Group and its Philippine affiliates, and 20% beneficial ownership of NTT Group in PLDT's outstanding shares.

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY Schedule I. Schedule of all the Effective Standards and Interpretations\* December 31, 2012

| PHILIPPINE FINANCIA<br>Effective as of Decemb | L REPORTING STANDARDS AND INTERPRETATIONS<br>per 31, 2012  | Adopted | Not Adopted       | Not Applicable |
|---|--|---------|-------------------|----------------|
| Framework for the Pre                         | paration and Presentation of Financial Statements  |         |                   |                |
| PFRSs Practice Staten                         | nent Management Commentary   |         |                   |                |
| Philippine Financial Re                       | porting Standards  |         |                   |                |
| PFRS 1 (Revised)                              | First-time Adoption of Philippine Financial Reporting Standards  | Х       |                   |                |
|   | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | Х       |                   | Х              |
|   | Amendments to PFRS 1: Additional Exemptions for First-time Adopters  | Х       |                   | Х              |
|   | Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters            | Х       |                   | Х              |
|   | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  | Х       |                   | Х              |
|   | Amendments to PFRS 1: Government Loans   | Х       |                   | Х              |
| PFRS 2  | Share-based Payment  | Х       |                   | Х              |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations   | Х       |                   | Х              |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      | Х       |                   | Х              |
| PFRS 3 (Revised)                              | Business Combinations  | Х       |                   |                |
| PFRS 4  | Insurance Contracts  | Х       |                   | Х              |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts   | Х       |                   | х              |
| PFRS 5  | Non-current Assets Held for Sale and Discontinued Operations   | Х       |                   |                |
| PFRS 6  | Exploration for and Evaluation of Mineral Resources  | Х       |                   | Х              |
| PFRS 7  | Financial Instruments: Disclosures   | Х       |                   |                |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets  | Х       |                   |                |
|   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition          | Х       |                   |                |
|   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments  | Х       |                   |                |
|   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets  | Х       |                   |                |
|   | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities*                     | ×       |                   |                |
|   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*                           |         | Not early adopted |                |
| PFRS 8  | Operating Segments   | Х       |                   |                |
| PFRS 9**                                      | Financial Instruments  |         | Not early adopted |                |
|   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                            |         | Not early adopted |                |
| PFRS 10**                                     | Consolidated Financial Statements  | Х       |                   |                |
|   |  |         |                   |                |

| PFR 19Bial and indext and the field of the second of the seco  | PHILIPPINE FINANCIAL<br>Effective as of Decemb | REPORTING STANDARDS AND INTERPRETATIONS<br>or 31, 2012  | Adopted | Not Adopted       | Not Applicable |
|--|--|---|---------|-------------------|----------------|
| PFR 19"KeikaaaKeikaaFilipione ControlSeikaaParlandeSeikaaParlandeSeikaaAnadhenis DAS 1: DestalablesureSeikaaAnadhenis DAS 1: DestalablesureSeikaaAnadhenis DAS 1: DestalablesureSeikaaParlande </th <th>PFRS 11**</th> <th>Joint Arrangements</th> <th>X</th> <th></th> <th></th>  | PFRS 11**                                      | Joint Arrangements  | X       |                   |                |
| Philippine Accounting Headborn of Inervial Statements       X         PAS 1 (Pervised)       Amendments to PAS 1: Catatia Diaciosures       X         Amendments to PAS 2: and PAS 1: Instate Francial Instruments and Obligations Arising on Liquidation       X       X         PAS 2       Inventories to PAS 2: and PAS 1: Proteinable Francial Instruments and Obligations Arising on Liquidation       X       X         PAS 2       Inventories to PAS 2: Presentation of Items of Other Comprehensive Income*       X       X         PAS 4       Accounting Policies, Changes in Accounting Estimates and Errors       X       X         PAS 1       Construction Contracts       X       X <t< td=""><td>PFRS 12**</td><td>Disclosure of Interests in Other Entities</td><td>Х</td><td></td><td></td></t<>  | PFRS 12**                                      | Disclosure of Interests in Other Entities   | Х       |                   |                |
| Preservation of Financial Statements       X         Amendments to PAS 1: Capital Disclosures       X         Amendments to PAS 1: Capital Disclosures       X         Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*       X         PAS 2       Inventorias       X         PAS 3       Statement of Cabit Pows       X         PAS 4       Construction Contracts       X         PAS 1       Construction Contracts       X         PAS 10       Construction Contracts       X         PAS 11       Construction Contracts       X         PAS 12       Inorem Tares       X         PAS 13       Reservation of Linearia In Exercise Accounting Estimates and Errors       X         PAS 14       Construction Contracts       X         PAS 15       Construction Contracts       X         PAS 16       Property, Plant and Equipment       X         PAS 19       Enclose       X         PAS 19       Enclose       X         PAS 19       Enclose       X         PAS 19 (Pavised)***       Enclose       X         PAS 19 (Pavised)***       Enclose       X         PAS 21       Definition for Sociation and Losses, Group Plans and Disclosures       X  | PFRS 13**                                      | Fair Value Measurement  |         | Not early adopted |                |
| Amendments to PAS 2: acital Disclosures<br>Amendments to PAS 2: and PAS 1: Putable Francial Instruments and Obligations Arising on Liquidation<br>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income"<br>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income"<br>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income"<br>Accounting Policies, Changes In Accounting Estimates and Errors<br>Accounting Policies, Changes In Accounting Estimates and Errors<br>Accounting Policies, Changes In Accounting Date<br>Accounting Policies, Changes In Accounting Date<br>Accounting Policies, Changes In Accounting Assets<br>Accounting Policies, Changes In Accounting Assets<br>Accounting Policies, Changes In Accounting Assets<br>Amendments to PAS 12: - Defened Tax: Recovery of Underlying Assets<br>Amendments to PAS 12: - Defened Tax: Recovery of Underlying Assets<br>Amendments to PAS 12: - Defened Tax: Recovery of Underlying Assets<br>Amendments to PAS 19: - Actuarial Gains and Losses, Group Plans and Disclosures<br>Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures<br>Accounting for Government Grants and Disclosure of Government Assistance<br>Accounting for Government Grants and Disclosure of Government Assistance<br>Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures<br>Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures<br>Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures<br>Accounting for Government Assistance of Government Assistance<br>Accounting and Recorting to Ratis and Disclosure of Government Assistance<br>Amendments: Net Investment in a Foreign Operation<br>Accounting and Recorting to Ratis and Disclosures<br>Accounting and Recorting to Ratis and Disclosures<br>Accounting and Recorting to Ratis and Disclosures<br>Accounting and Reporting to Ratis a | Philippine Accounting S                        | Standards   |         |                   |                |
| Amendments to PAS 32 Put Hable Financial Instruments and Obligations Arising on Liguidation A X S M Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation of Items of Other Comprehensive Income* X Amendments to PAS 1: Presentation and Environ S Amendments to PAS 1: Presentation and Environ S Amendments to PAS 1: Presentation and Environ S Amendments to PAS 1: Presentation Contracts Amendments to PAS 1: Presentation Contracts Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery of Under/ying Assets Amendments to PAS 1: Presentatic Recovery Pas and Disclosures Amendments to PAS 1: Presentatic Recovery Pas and Disclosures Amendments Amendments to PAS 1: Presentatic Recovery Pas and Disclosures Amendments Amendments to PAS 1: Presentatic Recovery Pas and Disclosures Amendments Amendments Amendments Amendments Amendment Assistance Amendments Amendments Amendment Amendmen   | PAS 1 (Revised)                                | Presentation of Financial Statements  | Х       |                   |                |
| Amendments to PAS 1: Presentation of Items of Other Comprehensive Income"         X           PAS 2         Inventiones         X           PAS 4         Inventiones         X           PAS 5         Accounting Policies, Chances in Accounting Estimates and Errors         X           PAS 10         Events after the Recording Date         X           PAS 11         Construction Contracts         X         X           PAS 12         Income Taxes         X         X           PAS 16         Property, Plant and Equipment         X         X           PAS 16         Revenue         X         X           PAS 17         Lesses         X         X           PAS 16         Revenue         X         X           PAS 17         Lesses         X         X           PAS 17         Lesses         X         X           PAS 16         Prolovee Benefits         X         X           PAS 20         Emolynee Benefits         X   |  | Amendments to PAS 1: Capital Disclosures  | Х       |                   |                |
| PAS 2InventoriesXPAS 1Statement of Cash FlowsXPAS 3Accounting Oblicies, Changes in Accounting Estimates and ErrorsXPAS 10Events dare the Reporting DateXPAS 11Construction ContractsXPAS 12Income TaxesXArmendments to PAS 12 - Deferred Tax: Recovery of Underlying AssetsXPAS 16Property, Plant and EquipmentXPAS 17LessesXPAS 19RevenueXPAS 19Inclowes BenefitsXPAS 19Employees BenefitsXPAS 19Employees EnerifitsXPAS 20Accounting for Government Grants and DisclosuresXPAS 21Elfects of Changes in Foreign Exchange PatesXPAS 24 (Revised)**Browing CostsXPAS 24 (Revised)Reletel Party DisclosuresXPAS 24 (Revised)Reletel Party DisclosuresXPAS 25 (Revised)**Coonaling and Reporting by Retirement Benefit PlansXPAS 27 (Revised)**Reletel Party DisclosuresXPAS 27 (Revised)**Searate Financial StatementsXPAS 26 (Revised)**Investment in AssociatesXPAS 27 (Revised)**Investment SacociatesXPAS 28 (Revised)**Investment in Associates and Joint VenturesXPAS 29 (Revised)**Investment in AssociatesXPAS 29 (Revised)**Investment in AssociatesXPAS 20 (Revised)**Investment in AssociatesXPAS   |  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | Х       |                   | Х              |
| PAS7Statement Geah FlowsXPAS8Accounting Policies, Changes in Accounting Estimates and ErrorsXPAS10Events after Reporting DateXPAS11ConstructorsXXPAS12ConstructorsXXPAS12Income TaxesXXPAS14Property, Patt and EquipmentXXPAS15ReverueXXXPAS16Poperty, Patt and EquipmentXXXPAS17LeasesXXXXPAS18EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS19EvenueXXXXPAS210EvenueXXXXPAS24(Revised)*Rotoring Costement Grants and Disclosure of Government AssistanceXXPAS24(Revised)*Rotoring Costement Event FlansXXXPAS24(Revised)*Rotoring Costement Event FlansXXXPAS24(Revised)*Rotoring Costerate Financial StatementsXXXPAS24(Revised)*Rotoring Costerate Financial Statements </td <td></td> <td>Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*</td> <td>×</td> <td></td> <td></td>   |  | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*                             | ×       |                   |                |
| PAS 8Acounting Policies, Changes in Accounting Estimates and ErrorsXPAS 10Events due the Reporting DateXPAS 11Construction ContractsXPAS 12Income TaxesXPAS 16Property, Plant and EquipmentXPAS 16Orgenzy, Plant and EquipmentXPAS 17EasesXPAS 18RevenueXPAS 19Employee BenefitsXAmortements to PAS 19: Actuarial Gains and Losses, Group Plants and DisclosuresXPAS 19Employee BenefitsXAmortement to PAS 19: Actuarial Gains and Losses, Group Plants and DisclosuresXPAS 20Employee BenefitsXAmortement to PAS 19: Actuarial Gains and Losses, Group Plants and DisclosuresXPAS 21 (Revised)**Employee BenefitsXAmortement trans and Disclosure of Government AssistanceXPAS 21 (Revised)**Employee BenefitsXAmortement: the Investment in a Foreign OperationXPAS 22 (Revised)**Government Grants and Disclosure of Government AssistanceXPAS 23 (Revised)**Actuarity DisclosuresXPAS 24 (Revised)**Actuarity DisclosuresXPAS 24 (Revised)**Government Ensempt PlantsXPAS 25 (Revised)***Instancial StatementsXPAS 26 (Revised)***Instancial StatementsXPAS 26 (Revised)****Instancial StatementsXPAS 27 (Revised)*****Instancial StatementsXPAS 26 (Revised)******************  | PAS 2  | Inventories   | Х       |                   |                |
| PAS 10         Events after the Reporting Date         X           PAS 11         Construction Contracts         X         X           PAS 12         Income Taxes         X         X           PAS 16         Property, Plant and Equipment         X         X           PAS 16         Property, Plant and Equipment         X         X           PAS 16         Property, Plant and Equipment         X         X           PAS 17         Leases         X         X           PAS 18         Revenue         X         X           PAS 19         Employee Benefits         X         X           PAS 19 (Revised)***         Employee Benefits         X         X           PAS 19 (Revised)***         Employee Denefits         X         X           PAS 20         Accounting for Government Grants and Disclosure of Government Assistance         X         X           PAS 21 (Revised)***         Employee Benefits         X         X         X           PAS 21 (Revised)***         Employee Benefits         X         X         X           PAS 21 (Revised)***         Employee Benefits         X         X         X         X         X         X         X         X         X         X  | PAS 7  | Statement of Cash Flows   | Х       |                   |                |
| PAS 11Construction ContractsXXPAS 12Income TaxesXXAmendments to PAS 12 - Deferred Tax: Recovery of Underlying AssetsXXPAS 16Poperty, Pant and EquipmentXXPAS 17LeasesXXPAS 18RevenueXXPAS 19Employee BenefitsXXAmendments to PAS 19: Actuarial Gains and Losses, Group Plans and DisclosuresXXPAS 20Accounting for Government Grants and Disclosure of Government AssistanceXXPAS 21 (Pervised)**Enfetcts of Changes in Foreign Exchange Rates<br>Amendments to IN thirty stimant in a Foreign OperationXXPAS 23 (Revised)Gorowing CostsXXXPAS 24 (Revised)Relet of Party DisclosuresXXPAS 27 (Revised)**Socoald and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)**Socoald and Separate Financial StatementsXXPAS 27 (Revised)**Soparate Financial StatementsXXPAS 28 (Revised)**Kinements in Associates and Joint VenturesXX   | PAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors                                       | Х       |                   |                |
| PAS 12Income TaxesXAnother to PAS 12-Deferred Tax: Recovery of Underlying AssetsXPAS 16Property, Plant and EquipmentXPAS 16ReserveryXPAS 17LeasesXPAS 18Revenue Constraints of PAS 19XPAS 19Revolvee BenefitsXPars 10Rolovee BenefitsXPAS 19 (Revised)**Enclovee BenefitsXPAS 20Counting for Government Grants and Disclosures of Government AssistanceXPAS 21The Effects of Changes in Foreign Exchange RatesXPAS 23 (Revised)**Biolovee BenefitsXPAS 24 (Revised)**Scounting of Government Benefit PlantsXPAS 24 (Revised)Counting and Disclosure of Government AssistanceXPAS 25 (Revised)**Biological and Special Exclange RatesXPAS 26 (Revised)**Government Grants and Disclosure of Government AssistanceXPAS 27 (Revised)**Biological and Special Exclange RatesXPAS 26 (Revised)**Government Grants and Disclosure of Government AssistanceXPAS 27 (Revised)**Government Grants and Disclosure of Government AssistanceXPAS 26 (Revised)**Government Grants and Disclosure of Government AssistanceXPAS 27 (Re  | PAS 10   | Events after the Reporting Date   | Х       |                   |                |
| Amendments to PAS 12 - Deferred Tax: Recovery of Underlying AssetsXPAS 16Poperty, Plant and EquipmentXPAS 17LeasesXPAS 18RevoueXPAS 19Employee BenefitsXAmendments to PAS 19: Actuarial Gains and Losses, Group Plans and DisclosuresXPAS 19Employee BenefitsXPAS 20Accounting for Government Grants and Disclosure of Government AssistanceXPAS 21The Effects of Changes in Foreign DeprationXPAS 23 (Revised)RevoueXPAS 24 (Revised)RevoueXPAS 24 (Revised)RevoueXPAS 26 (Revised)Scounting and Experiment Benefit PlansXPAS 27 (Revised)Recounting and Experiment Benefit PlansXPAS 27 (Revised)Government Financial StatementsXPAS 27 (Revised)Scounting and Experiment Benefit PlansXPAS 27 (Revised)Scounting and Reporting DeprationXPAS 26 (Revised)NextementsXPAS 27 (Revised)Scounting and Reporting DeprationXPAS 27 (Revised)NextementsXPAS 28 (Revised)NextementsXPAS 29 (Revised)NextementsXPAS  | PAS 11   | Construction Contracts  | Х       |                   | х              |
| PAS 16       Properly, Plant and Equipment       X         PAS 17       Leases       X         PAS 18       Revenue       X         PAS 19       Employee Benefits       X         Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures       X         PAS 20       Accounting for Government Grants and Disclosure of Government Assistance       X         PAS 21       The Effects of Changes in Foreign Exchange Rates       X         PAS 23 (Revised)       Scounting for Government Grants and Disclosure of Government Assistance       X         PAS 23 (Revised)       The Effects of Changes in Foreign Exchange Rates       X         PAS 24 (Revised)       Borrowing Costs       X         PAS 24 (Revised)       Related Party Disclosures       X         PAS 257       Consolidated and Separate Financial Statements       X         PAS 27 (Revised)**       Separate Financial Statements       X         PAS 26 (Revised)**       Separate Financial Statements       X         PAS 28 (Revised)**       Investments in Associates and Joint Ventures       X   | PAS 12   | Income Taxes  | Х       |                   |                |
| PAS 17       Leases       X         PAS 18       Revenue       X         PAS 19       Employee Benefits       X         Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures       X         PAS 19 (Revised)**       Employee Benefits       X         PAS 20       Accounting for Government Grants and Disclosure of Government Assistance       X       X         PAS 21       The Effects of Changes in Foreign Exchange Rates       X       X         PAS 23 (Revised)       Borrowing Costs       X       X         PAS 24 (Revised)       Related Party Disclosures       X       X         PAS 25 (Revised)       Related national Statements       X       X         PAS 26 (Revised)**       Sparate Financial Statements       X       X         PAS 27 (Revised)**       Sparate Financial Statements       X       X         PAS 26 (Revised)**       Sparate Financial Statements       X       X         PAS 28 (Revised)**       Investment in Associates and Joint Ventures       X       X   |  | Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                    | Х       |                   |                |
| PAS 18RevenueXPAS 19Employee BenefitsXAmontments or PAS 19: Actuarial Gains and Losses, Group Plans and DisclosuresXPAS 19 (Revised)**Employee BenefitsXAccounting of Government Grants and Disclosure of Government AssistanceXXPAS 20Accounting of Government Grants and Disclosure of Government AssistanceXXPAS 21The Effects of Changes in Foreign Exchange RetesXXPAS 23 (Revised)Borowing CostsXXPAS 24 (Revised)Reter Pas 10XXPAS 25 (Revised)Gounting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)*Gounting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)*Sparate Financial StatementsXXPAS 26 (Revised)*Investment in AssociatesXXPAS 28 (Revised)*Investment StatementsXXPAS 28 (Revised)**Investment StatementsXX <td>PAS 16</td> <td>Property, Plant and Equipment</td> <td>Х</td> <td></td> <td></td>   | PAS 16   | Property, Plant and Equipment   | Х       |                   |                |
| PAS 19       Employee Benefits       X         Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures       X         PAS 19 (Revised)**       Employee Benefits       X         PAS 20       Accounting for Government Grants and Disclosure of Government Assistance       X       X         PAS 21       The Effects of Changes in Foreign Exchange Rates       X       X         Amendment: Net Investment in a Foreign Operation       X       X         PAS 23 (Revised)       Borrowing Costs       X       X         PAS 24 (Revised)       Related Party Disclosures       X       X         PAS 27 (Revised)       Related Party Disclosures       X       X         PAS 27 (Revised)**       Separate Financial Statements       X       X         PAS 28 (Revised)**       Investments Associates and Joint Ventures       X       X         PAS 28 (Revised)**       Investments and Disclosures       X       X   | PAS 17   | Leases  | Х       |                   |                |
| Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and DisclosuresXPAS 19 (Revised)**Employee BenefitsXPAS 20Accounting for Government Grants and Disclosure of Government AssistanceXXPAS 21The Effects of Changes in Foreign Exchange RatesXXPAS 23 (Revised)Browing CostsXXPAS 24 (Revised)Reide Party DisclosuresXXPAS 26 (Revised)Reide Party DisclosuresXXPAS 27 (Revised)Counting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)Gorad Separate Financial StatementsXXPAS 27 (Revised)Giparate Financial StatementsXXPAS 28 (Revised)InstrumentsXXPAS 28 (Revised)InstrumentsXXPAS 28 (Revised)**Instruments and Joint VenturesXX  | PAS 18   | Revenue   | Х       |                   |                |
| PAS 19 (Revised)**Employee BenefitsXPAS 20Accounting for Government Grants and Disclosure of Government AssistanceXXPAS 20The Effects of Changes in Foreign Exchange RatesXXAmendment: Net Investment in a Foreign OperationXXPAS 23 (Revised)Borrowing CostsXXPAS 24 (Revised)Related Party DisclosuresXXPAS 26 (Revised)Accounting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)Sparate Financial StatementsXXPAS 27 (Revised)Separate Financial StatementsXXPAS 28 (Revised)**Investment in Associates and Joint VenturesXXPAS 28 (Revised)**Investment in Associates and Joint VenturesXX  | PAS 19   | Employee Benefits   | Х       |                   |                |
| PAS 20Accounting for Government Grants and Disclosure of Government AssistanceXXPAS 21The Effects of Changes in Foreign Exchange RatesXXAmendment: Net Investment in a Foreign OperationXXPAS 23 (Revised)Borrowing CostsXXPAS 24 (Revised)Related Party DisclosuresXXPAS 25 (Revised)Counting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)**Separate Financial StatementsXXPAS 28 (Revised)**Investment in AssociatesXXPAS 28 (Revised)**Investment in Associates and Joint VenturesXX   |  | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         | Х       |                   |                |
| PAS 21The Effects of Changes in Foreign Exchange RatesXAmendment: Net Investment in a Foreign OperationXXPAS 23 (Revised)Borowing CostsXPAS 24 (Revised)Related Party DisclosuresXPAS 26 (Revised)Related Party DisclosuresXPAS 27 (Revised)Consolidated and Separate Financial StatementsXPAS 27 (Revised)**Separate Financial StatementsXPAS 28 (Revised)**Investment in AssociatesXPAS 28 (Revised)**Investment Send Joint VenturesX  | PAS 19 (Revised)**                             | Employee Benefits   | Х       |                   |                |
| Amendment: Net Investment in a Foreign OperationXXPAS 23 (Revised)Borrowing CostsXXPAS 24 (Revised)Related Party DisclosuresXXPAS 26Accounting and Reporting by Retirement Benefit PlansXXPAS 27 (Revised)**Consolidated and Separate Financial StatementsXXPAS 28 (Revised)**Separate Financial StatementsXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXX  | PAS 20   | Accounting for Government Grants and Disclosure of Government Assistance                              | Х       |                   | Х              |
| PAS 23 (Revised)Borrowing CostsXPAS 24 (Revised)Related Party DisclosuresXPAS 26Accounting and Reporting by Retirement Benefit PlansXXPAS 27Consolidated and Separate Financial StatementsXXPAS 27 (Revised)**Separate Financial StatementsXXPAS 28Investments in Associates and Joint VenturesXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXX  | PAS 21   | The Effects of Changes in Foreign Exchange Rates  | Х       |                   |                |
| PAS 24 (Revised)Related Party DisclosuresXPAS 26Accounting and Reporting by Retirement Benefit PlansXXPAS 27Consolidated and Separate Financial StatementsXXPAS 27 (Revised)**Separate Financial StatementsXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXX  |  | Amendment: Net Investment in a Foreign Operation  | Х       |                   | Х              |
| PAS 26Accounting and Reporting by Retirement Benefit PlansXXPAS 27Consolidated and Separate Financial StatementsXXPAS 27 (Revised)**Separate Financial StatementsXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXXPAS 28 (Revised)**Investments in Associates and Joint VenturesXX  | PAS 23 (Revised)                               | Borrowing Costs   | Х       |                   |                |
| PAS 27Consolidated and Separate Financial StatementsXPAS 27 (Revised)**Separate Financial StatementsXPAS 27 (Revised)**Investments in AssociatesXPAS 28 (Revised)**Investments in Associates and Joint VenturesX   | PAS 24 (Revised)                               | Related Party Disclosures   | Х       |                   |                |
| PAS 27 (Revised)**     Separate Financial Statements     X       PAS 28     Investments in Associates     X       PAS 28 (Revised)**     Investments in Associates and Joint Ventures     X  | PAS 26   | Accounting and Reporting by Retirement Benefit Plans  | Х       |                   | Х              |
| PAS 28     Investments in Associates     X       PAS 28 (Revised)**     Investments in Associates and Joint Ventures     X   | PAS 27   | Consolidated and Separate Financial Statements  | Х       |                   |                |
| PAS 28 (Revised)** Investments in Associates and Joint Ventures X  | PAS 27 (Revised)**                             | Separate Financial Statements   | Х       |                   |                |
|  | PAS 28   | Investments in Associates   | Х       |                   |                |
| PAS 29 Financial Reporting in Hyperinflationary Economies X X  | PAS 28 (Revised)**                             | Investments in Associates and Joint Ventures  | Х       |                   |                |
|  | PAS 29   | Financial Reporting in Hyperinflationary Economies  | Х       |                   | Х              |

| PHILIPPINE FINANCIAL R<br>Effective as of December | EPORTING STANDARDS AND INTERPRETATIONS<br>31, 2012  | Adopted | Not Adopted       | Not Applicable |
|--|---|---------|-------------------|----------------|
| PAS 31   | Interests in Joint Ventures   | Х       |                   |                |
| PAS 32   | Financial Instruments: Disclosure and Presentation  | Х       |                   |                |
|  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation   | Х       |                   | Х              |
|  | Amendment to PAS 32: Classification of Rights Issues  | Х       |                   |                |
|  | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities**                           |         | Not early adopted |                |
| PAS 33   | Earnings per Share  | Х       |                   |                |
| PAS 34   | Interim Financial Reporting   | Х       |                   | х              |
| PAS 36   | Impairment of Assets  | Х       |                   |                |
| PAS 37   | Provisions, Contingent Liabilities and Contingent Assets  | Х       |                   |                |
| PAS 38   | Intangible Assets   | Х       |                   |                |
| PAS 39   | Financial Instruments: Recognition and Measurement  | Х       |                   |                |
|  | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities  | Х       |                   |                |
|  | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                    | Х       |                   |                |
|  | Amendments to PAS 39: The Fair Value Option   | Х       |                   |                |
|  | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  | Х       |                   |                |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                   | Х       |                   |                |
|  | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition   | Х       |                   |                |
|  | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        | Х       |                   |                |
|  | Amendment to PAS 39: Eligible Hedged Items  | Х       |                   |                |
| PAS 40   | Investment Property   | Х       |                   |                |
| PAS 41   | Agriculture   | Х       |                   | Х              |
| Philippine Interpretations                         |   |         |                   |                |
| IFRIC 1  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                | Х       |                   |                |
| IFRIC 2  | Members' Share in Cooperative Entities and Similar Instruments  | Х       |                   | Х              |
| IFRIC 4  | Determining Whether an Arrangement Contains a Lease   | Х       |                   |                |
| IFRIC 5  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    | Х       |                   | Х              |
| IFRIC 6  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | Х       |                   | Х              |
| IFRIC 7  | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       | Х       |                   | Х              |
| IFRIC 8  | Scope of PFRS 2   | Х       |                   |                |
| IFRIC 9  | Reassessment of Embedded Derivatives  | Х       |                   |                |
|  | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        | Х       |                   |                |
| IFRIC 10   | Interim Financial Reporting and Impairment  | Х       |                   | х              |
|  |   |         |                   |                |

| PHILIPPINE FINAN<br>Effective as of Dec | ICIAL REPORTING STANDARDS AND INTERPRETATIONS<br>ember 31, 2012                                  | Adopted | Not Adopted       | Not Applicable |
|---|--|---------|-------------------|----------------|
| IFRIC 11                                | PFRS 2- Group and Treasury Share Transactions  | Х       |                   | •              |
| IFRIC 12                                | Service Concession Arrangements  | Х       |                   | х              |
| IFRIC 13                                | Customer Loyalty Programmes  | Х       |                   |                |
| IFRIC 14                                | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction         | Х       |                   | Х              |
|   | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | Х       |                   | Х              |
| IFRIC 16                                | Hedges of a Net Investment in a Foreign Operation  | Х       |                   | Х              |
| IFRIC 17                                | Distributions of Non-cash Assets to Owners   | Х       |                   | Х              |
| IFRIC 18                                | Transfers of Assets from Customers   | Х       |                   | Х              |
| IFRIC 19                                | Extinguishing Financial Liabilities with Equity Instruments                                      | Х       |                   |                |
| IFRIC 20                                | Stripping Costs in the Production Phase of a Surface Mine**                                      |         | Not early adopted |                |
| SIC-7                                   | Introduction of the Euro   | Х       |                   | Х              |
| SIC-10                                  | Government Assistance - No Specific Relation to Operating Activities                             | Х       |                   | Х              |
| SIC-12                                  | Consolidation - Special Purpose Entities   | Х       |                   | Х              |
|   | Amendment to SIC - 12: Scope of SIC 12   | Х       |                   | Х              |
| SIC-13                                  | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                            | Х       |                   | Х              |
| SIC-15                                  | Operating Leases - Incentives  | Х       |                   |                |
| SIC-25                                  | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                        | Х       |                   | Х              |
| SIC-27                                  | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                     | Х       |                   |                |
| SIC-29                                  | Service Concession Arrangements: Disclosures.  | Х       |                   | Х              |
| SIC-31                                  | Revenue - Barter Transactions Involving Advertising Services                                     | Х       |                   | х              |
| SIC-32                                  | Intangible Assets - Web Site Costs   | Х       |                   |                |
|   |  |         |                   |                |

\* Re-issued to include new accounting standards effective January 1, 2013 with retrospective application which have been reflected in the re-issued consolidated financial statements prepared solely for the purpose of inclusion in the prospectus related to PLDT's bond offering.
 \*\*Standards or amendments that are effective subsequent to December 31, 2012, which may be applicable to early adopters.

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

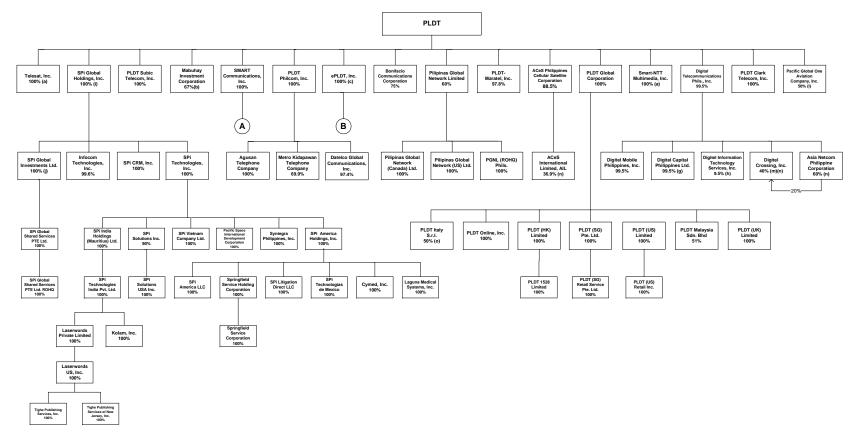
Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration

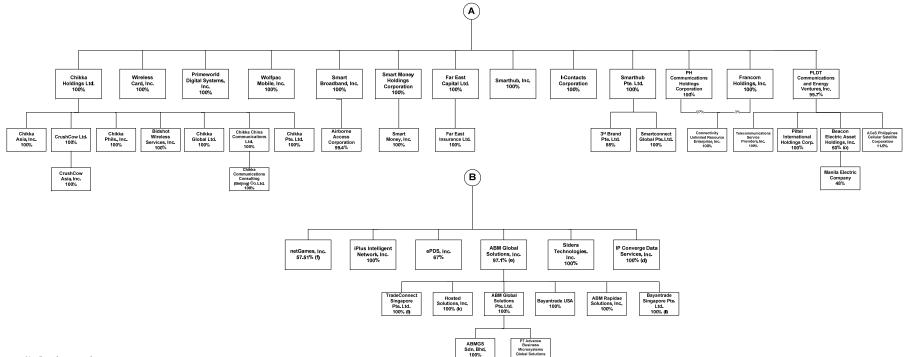
December 31, 2012

|  |           | Amount<br>(in millions) |
|--|-----------|-------------------------|
| Parent Company's unappropriated retained earnings at beginning of the year                       |           | Php31,655               |
| Less: Cumulative unrealized income – net of tax  |           |                         |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalents) | (1,679)   |                         |
| Fair value adjustments (mark-to-market gains)  | (4,289)   |                         |
| Fair value adjustments of investment property resulting to gain                                  | (466)     | (6,434)                 |
| Unappropriated retained earnings as adjusted at beginning of the year                            |           | 25,221                  |
| Parent Company's net income attributable to equity holder of PLDT for the year                   | 33,566    |                         |
| Less: Unrealized income – net of tax during the year   |           |                         |
| Fair value adjustments of investment property resulting to gain                                  | (80)      |                         |
| Unrealized foreign exchange gains – net (except those attributable to cash and cash equivalent)  | (337)     | 33,149                  |
| Realized income during the year  | · · · · · |                         |
| Realized fair value adjustments (mark-to-market gains)   | 3,157     |                         |
| Realized foreign exchange gains  | 920       |                         |
| Revaluation increment of investment property sold removed from other comprehensive income        | 105       |                         |
| Realized fair value adjustments of investment property   | 11        | 4,193                   |
| Cash dividends declared during the year  |           |                         |
| Common stocks  | (36,946)  |                         |
| Preferred stocks   | (51)      | (36,997)                |
| Unappropriated Retained Earnings Available for Dividend, End                                     |           | Php25,566               |

As at December 31, 2012, the consolidated unappropriated retained earnings amounted to Php25,416 million while the Parent Company's unappropriated retained earnings amounted to Php28,329 million. The difference of Php2,913 million pertains to the accumulated losses of consolidated subsidiaries, associates and joint ventures accounted for under the equity method.







- (a) Ceased commercial operations.
- (b) Ceased commercial operations, however, on January 13, 2012, the Philippine Securities and Exchange Commission, or Philippine SEC, approved the amendment of MIC's Articles of Incorporation changing its Cease a commercial operations, however, on January 13, 2012, the Entlippine Securities and Exchange Commission, or Philippine Sec., approved the amena name from Mabuhay Satellite Corporation to Mabuhay Investments Corporation and its primary purpose from satellite communication to holding company.
   On June 11, 2012, MySecureSign, or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company.
   On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.

- (e) In December 2012, ePLDT buy-ou 3.6% stake of minority shareholders in AGS for a consideration of Php3 million, thereby increasing ePLDT's ownership in AGS from 93.5% to 97.1%.
- Ø Ceased commercial operations in January 2013.
- (g)
- Liquidated in January 2013. Approved for liquidation in June 2013. (h)
- ø http://www.analystance.com/analyst Operations.
- Or March 8, 2012, SGIL was incorporated in British Virgin Islands to provide regional support services to SPi Global and Subsidiaries. On July 25, 2012, SGIL through its subsidiary, SPi Global Shared Services Pte. Ltd. was registered to Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.
- (k) Dissolved on June 30, 2012.
- Ø Dissolved on December 6, 2012.
- (m) Digitel Crossing Inc. is 40% owned by Digitel Telecommunications Philippines, Inc. and 20% owned by Asia Netcom Philippine Corporation.
- (n) Investment in associates.
- <sup>(0)</sup> Investment in joint ventures.

Note: PLDT has no Parent and ultimate Parent Company.

# PHILIPPINE LONG DISTANCE TELEPHONE COMPANY Schedule L. Financial Soundness Indicators December 31, 2012 and 2011

|   | Decembe  | er 31,   |
|---|----------|----------|
|   | 2012     | 2011     |
|   |          |          |
| Current Ratio <sup>(1)</sup>              | 0.69:1.0 | 0.61:1.0 |
| Net Debt to Equity Ratio <sup>(2)</sup>   | 0.54:1.0 | 0.46:1.0 |
| Net Debt to EBITDA Ratio <sup>(3)</sup>   | 1.04:1.0 | 0.90:1.0 |
| Total Debt to EBITDA Ratio <sup>(4)</sup> | 1.54:1.0 | 1.50:1.0 |
| Asset to Equity Ratio <sup>(5)</sup>      | 2.79:1.0 | 2.61:1.0 |
| Interest Coverage Ratio <sup>(6)</sup>    | 7.13:1.0 | 7.19:1.0 |
| Profit Margin <sup>(7)</sup>              | 22%      | 21%      |
| Return on Assets <sup>(8)</sup>           | 9%       | 9%       |
| Return on Equity <sup>(9)</sup>           | 24%      | 25%      |
| EBITDA Margin <sup>(10)</sup>             | 47%      | 54%      |

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

<sup>(2)</sup> Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity attributable to equity holders of PLDT.

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

<sup>(4)</sup> Total Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) divided by EBITDA for the 12 months average period.

<sup>(5)</sup> Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of PLDT.

<sup>(6)</sup> Interest coverage ratio is measured by EBIT, or earnings before financing costs and provision for (benefit from) income tax for the 12 months average period, divided by total financing cost for the 12 months average period.

<sup>(7)</sup> Profit margin is derived by dividing net income for the period with total revenues for the period.

<sup>(8)</sup> Return on assets is measured as 12 months average net income for the period divided by average total assets.

<sup>(9)</sup> Return on Equity is measured as 12 months average net income for the period divided by average total equity attributable to equity holders of PLDT.

<sup>(10)</sup> EBITDA margin for the period is measured as EBITDA divided by service revenues for the period.

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