A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THE SAME BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PRELIMINARY PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION OF AN OFFER TO BUY.

PLDT

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

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

[•]% Seven-Year Bonds Due 2021
[•]% Ten-Year Bonds Due 2024
Offer Price: 100% of Face Value

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners

BDO Capital & Investment Corporation | BPI Capital Corporation | First Metro Investment Corporation, Metrobank Group | HSBC

Issue Coordinator

First Metro Investment Corporation, Metrobank Group

The date of this Preliminary Prospectus is December 6, 2013

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.

Prospectus

(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 [●] (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 [●]% p.a. Interest on the 7-Year Bonds shall be payable [●] in arrears starting on [●] for the first Interest Payment Date, and [●], [●], [●] and [●] 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 [●]% p.a. Interest on the Ten Year Bonds shall be payable [●] in arrears starting on [●] for the first Interest Payment Date, and [●], [●], [●] and [●] 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 [●] for the 7-Year Bonds and on [●] 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 50).

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 49).

The Bonds have been rated [●] by Credit Rating Investors Services Philippines on [●]. 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 Joint Lead 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 Corporation ("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 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 Joint Lead 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. Thus, an investment in the Bonds described in this Prospectus involves a certain degree of risk.

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 20 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 Joint Lead 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 Joint Lead Underwriters or any person affiliated with the Joint Issue Managers and the Joint Lead 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 20 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 Joint Lead 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 Joint Lead 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.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE

REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
By:

Napoleon L. Nazareno
President and Chief Executive Officer

SUBSCRIBED AND SWORN to before me this ______________________ affiant exhibiting to me ________________ issued on ______________ , by____________ in the City of _____________
Doc. No. _______;
Page No. _______;
Book No. _______;
Series of 2013.

TABLE OF CONTENTS

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 forward-looking 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 forward-looking 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 consolidated subsidiaries, and references to "PLDT," the "Issuer," or the "Company" mean Philippine Long Distance Telephone Company, excluding consolidated 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:

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, of 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 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	SEC-registered Unsecured Fixed Rate 7-Year 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 Busines Conduct and Ethics
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 Corporation
Constitution	The 1987 Constitution of the Philippines
Corporation Code	Batas Pambansa Blg. 68, otherwise know as "The Corporation Code of the Philippines," as amended
CPCN	Certificate of Public Convenience and Necessity
CRISP	Credit Rating Investors' Services Philippines, Inc.
CURE	Connectivity Unlimited Resource Enterprise, Inc., a majority-owned subsidiary of PH Communciations Corporation
DFON	Domestic Fiber Optic Network
Digitel	Digital Telecommunications Philippines, Inc., a 99.5%-owned subsidiary of PLDT
DMPI	Digitel Mobile Philippines, Inc., owns the brand name Sun Cellular 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
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
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board
IGF	International Gateway Facility
Interest Payment Date	[●], for the first Interest Payment Date and on [●],[●],[●] and [●] 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	The date which is [●] Banking Day prior to the Issue Date
IP	Internet Protocol
IPCDSI	IP Converge Data Services, Inc., a wholly-owned subsidiary of ePLDT
Issue Coordinator	First Metro Investment Corporation
Issue Date	[●] or such date on which the Bonds shall be issued by PLDT to the Bondholders

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation and The Hongkong and Shanghai Banking Corporation 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 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	[●]. 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
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 Agreement, Application to Purchase, and the Registry and Paying Agency Agreement, which are summarized in the section "Description of the Bonds" on page 47
Offer Period	Commencing at [●] on [●] and ending at [●] on [●] or such earlier day or later day as maybe mutually agreed upon the by Issuer, the Joint Issue Managers and the Joint Lead Underwriters
PAPTELCO	Philippine Association of Private Telephone Companies, Inc.
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 and Exchange Corporation
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	Individuals, juridical persons such as corporation, partnership, joint venture, unincorporated association, trust or other juridical entities, 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 the PLDT Employees' 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 in 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 [●] between the Company and the Paying Agent and Registrar
SBI	Smart Broadband, Inc., a wholly-owned subsidiary of Smart
SEC	Securities and Exchange Commission of the Philippines
SGV & Co.	SyCip Gorres Velayo & Co., the Company's Independent Auditor
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 to be entered into between the Company and the Trustee
Trustee	Metropolitan Bank & Trust Company – Trust Banking Group
TSC	Technology Strategy Committee
Underwriting Agreement	Underwriting Agreement to be entered into among the Company, the Joint Issue Managers, and the Joint Lead Underwriters
U.S.	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
VoIP	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 of "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 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 Php172,626 million and Php35,454 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 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 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, 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* to the accompanying unaudited consolidated financial statement as at and for the nine months ended September 30, 2013.

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 67 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. This should be read in conjunction with the 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 ended September		Years ended December 31,		
	2013	2012(1)	2012(2)	2011(1, 2 and 3)	2010(1 and 2)
			(in millions)		
Income Statement Data:					
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	33,197	36,268	43,606	41,085	53,623
Net income	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(4)	49%	48%	47%	54%	55%
Reported earnings per common share:					
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 common share from continuing operations:					
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 provided by operating activities	51,605	54,822	80,370	79,209	77,260
Net cash 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 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 broadband 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	18,975	19,930	15,407
Fixed Line	*9,892*	*10,619*	10,462	11,887	10,242
LEC	*7,151*	*7,811*	7,546	9,072	7,395
Others	*2,741*	*2,808*	2,916	2,815	2,847
Wireless	*8,243*	*8,467*	8,513	8,043	5,165

	September 30,	December 31,		
	2013	2012(2)	2011(2 and 6)	2010(2)
Balance Sheet Data:				
Total assets	390,817	405,815	401,792	278,083
Property, plant and equipment – net	191,578	200,078	200,142	163,184
Cash and cash equivalents and short-term investments	30,374	37,735	47,615	37,347
Total equity attributable to equity holders of PLDT	139,337	145,550	153,861	97,416
Notes payable and long-term debt, including current portion	109,453	115,792	117,275	89,646
Net debt(5) to equity ratio	0.57x	0.54x	0.46x	0.54x

(1) *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.*

(2) *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.*

(3) *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.*

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

(5) *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).*

(6) *The December 31, 2011 comparative 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 to the accompanying consolidated financial statements for further discussion.*

Please refer to the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" located on page 109 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.
Indicative Issue Date	The Bonds are expected to be issued on [●]
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 principal amount and the applicable Early Redemption Option Price in accordance with the following schedule:

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

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 10-Year Bonds: Ten (10) years from Issue Date

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 [●]% per annum 10-Year Bonds: Fixed interest rate of [●]% 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 [●] for the First Interest Payment Date, and [●], [●], [●] and [●] 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 pari passu and rateably without any preference or priority amongst themselves and at least pari passu 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 are to be rated by Credit Rating Investors Services Philippines, Inc.
Listing	PLDT intends to 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
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 "*Risks 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 seek professional advice if he or she is uncertain of, or has not understood any aspect of the Offer or the nature of risks involved in purchasing, holding and trading the Bonds. Each potential investor 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 product and conducting promotions, which may affect its 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:

- increases 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 decisions 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 on 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 Philippines 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 and BayanTel) 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 and manner in which we operate and charge our customers.

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 CURE 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. The NTC has interpreted this circular to require a reduction in SMS charges charged to end users. Therefore, it 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 again 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 merit 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 and Smart's right to due process; and that the NTC decision violates the Constitutional proscription against non-impairment of contracts. PLDT 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 "*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.

Although 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 Digitel in 2011, which is now majority-owned by PLDT, owned 100% equity interest in DMPI, since PLDT was then and continues to be a publicly listed company, there can be no assurance 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:

- shortages 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 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 services 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 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.

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 indebtedness 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. Approximately 54% and 45% of our total consolidated debts 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 IFRS, 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 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 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 JG Summit Holdings, or 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 Digital Telecommunications Phils., Inc., or Digitel, from JG Summit Holdings, Inc., 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 to any existing investees and US$100 million in the case of all investments to 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:

- elections 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, including our failure to implement 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 have 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 or 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 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 Philippine 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 through 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. 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 during 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 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 the 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 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 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 has 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 50 of this Prospectus). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be 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 increased relative to the Interest Rate of the Bonds, the price of the Bonds, when sold in the secondary market, may decrease. 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 of 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 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 owner. 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 Joint Lead 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 governments 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 of less	5%
Maturity period is more than five years	1%

In case the maturity period referred 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 party 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. An 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	15,200,000	
Rating agency fees	2,500,000	
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 option)		**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:

Rating agency annual monitoring 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 order of priority) 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 of 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 including Php1.1 billion capex for International cable expansion to increase point of presence and complete international resiliency, (2) Php1.4 billion on information technology to complete the implementation of PLDT's service delivery architecture that will allow best customer experience, (3) Php1.9 billion for customer premise equipment and installation materials, and (4) Php1.8 billion for other general capital expenditures.

2. Payment of outstanding debt obligations

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

Facility	Loan Amount	Outstanding Balance	Principal Payments due 2014	Interest Rate
Dollar Term Loans	*$475,000,000*	*$331,372,529*	*$105,882,353*	*US$LIBOR + 1.35% -1.46%*
Peso Equivalent[1]	**Php20,827,800,000**	**Php14,530,022,652**	**Php4,642,729,414**	
Peso Corporate Notes	*Php19,743,000,000*	*Php16,335,000,000*	*Php164,880,000*	*5.3938% - 5.9058%*
Peso Term Loans	*Php10,000,000,000*	*Php7,655,882,353*	*Php775,882,353*	*PDSTF + 0.3% - 0.8%, BSP O/N Rate - 0.35%, 5.2854% - 5.5808%*
Total Peso Loans	**Php29,743,000,000**	**Php23,990,882,353**	**Php940,762,353**	
Total long-term debt	**Php50,570,800,000**	**Php38,520,905,005**	**Php5,583,491,767**	

(1) *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.*

DETERMINATION OF OFFER PRICE

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

PLAN OF DISTRIBUTION

THE OFFER

On December 6, 2013, PLDT filed a Registration Statement with the Securities and Exchange Commission ("SEC"), in connection with the offer and sale to the public of debt securities with an aggregate principal amount of Ten Billion Pesos (Php10,000,000,000.00), with an over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00) Unsecured Fixed Rate Retail Bonds. 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 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 JOINT LEAD 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"), pursuant to the Underwriting Agreement with PLDT executed on [●] (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters for the Offer and as such, distribute and sell the Bonds at the Issue Price, and have also committed to underwrite an aggregate principal amount of Ten Billion Pesos (Php10,000,000,000.00) 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 Joint Lead Underwriters have committed to underwrite the entire Offer amount allocated to the each Joint Lead Underwriter as follows (in Php):

Bank	Amount
BDO Capital	[●]
BPI Capital	[●]
First Metro	[●]
HSBC	[●]
Total	**10,000,000,000**

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 Joint Lead Underwriters to return to PLDT any unsold Bonds. The Underwriting 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 Joint Lead Underwriters the right to designate or nominate member(s) to the Board of Directors of PLDT.

The Joint Lead Underwriters are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead 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, loan 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 Joint Lead Underwriters do not have any relation to PLDT or any of its subsidiaries in terms of ownership by either of their respective major stockholder/s and has any right to designate or nominate a member(s) of the Board of Directors of PLDT, except for HSBC which owns shares of PLDT common stock.

SALE AND DISTRIBUTION

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

The obligations of each of the underwriter will be several, and not solidary, and nothing in the Underwriting 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 Agreement, the failure by a Joint Lead Underwriter to carry out its obligations thereunder shall neither relieve the other underwriters of their obligations under the same Underwriting 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 Joint Lead 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 Joint Lead 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 Joint Lead Underwriters.

MANNER OF DISTRIBUTION

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

OFFER PERIOD

The Offer Period shall commence on [●] and end on [●].

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Joint Lead 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 by the Issuer as being sufficient in form and substance:

(a) a copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the applicant confirming the exemption or preferential rate and certified by an authorized officer of the applicant as being a true copy of the original on file with the applicant;

(b) with respect to tax treaty relief, a copy of the tax treaty relief application (TTRA) accompanied by the mandatory attachments required under prevailing revenue regulations, certified true and correct by an authorized officer of the Applicant, including, but not limited to proof to support the applicability of reduced treaty taxes, proof of tax domicile issued by the relevant tax authority of the Bondholder and authenticated by the Philippine consul, and confirmation from the Philippine Securities and Exchange Commission that the relevant entity is not doing business in the Philippines;

(c) a duly notarized undertaking, in the prescribed form, declaring and warranting the applicant's tax exempt status, undertaking to immediately notify the Issuer and the Registrar of any suspension or revocation of the tax exemption certificates 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

(d) 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 the Issuer 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.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Underwriters. Acceptance by the Joint Lead Underwriters of the completed Application to Purchase shall be subject to the availability of the Bonds and the 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 is 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).

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed Applications to Purchase on a first-come, first-served basis, without prejudice and subject to PLDT's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplised Applications to Purchase on a firs-come, first-served basis, without prejudice and subject to PLDT's exercise of its right of rejection.

REFUNDS

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest to such applicant through the Joint Lead Underwriters.

UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk.

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. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. PLDT will cause the Register of Bondholders to be kept at the specified office of 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.

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 Joint Lead 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 over-subscription option of up to Five Billion Pesos (Php5,000,000,000.00,) was authorized by a resolution of the Board of Directors of PLDT dated [●]. The Bonds are comprised of [Php●] 7-Year fixed rate bonds and [Php●] of 10-Year fixed rate Bonds (the "Bonds") was approved by the Board in the same meeting. The Bonds shall be constituted by a trust indenture (the "Trust Indenture") to be executed on [●] between PLDT and [●] (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 shall be executed on [●] (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 [●] and [●], 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 [●] Banking Days following the Issue Date. The Bondholder has [●] 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 transferee 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 [●] by [●] on [●]. In coming up with the rating, [●] considered the following factors present in the company: [●].

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 [●] determine that circumstances warrant a change.

2. TRANSFER OF BONDS

(a) Register of Bondholders

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 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.: [●]
Fax no.: [●]
E-mail: [●]
Attention: [●] [Insert Position ●]

(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 [●] p.a., payable quarterly in arrears, commencing on [●] as the first Interest Payment Date, and on [●], [●], [●] and [●] 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 [●] p.a., payable quarterly in arrears, commencing on [●] as the first Interest Payment Date, and on [●], [●], [●] and [●] 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 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 the basis of a 30/360-day basis, consisting of 12 months of 30 days each; provided, however in the 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 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 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 an (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 (5th) Year and One (1) quarter from the Issue Date	101.0%
	Sixth (6th) Year from the Issue Date	100.5%

Ten-Year Bonds	Seventh (7th) Year from the Issue Date	102.0%
	Eighth (8th) Year from the Issue Date	101.0%
	Ninth (9th) 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, 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 the 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 applicable 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 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 Bureau of Internal Revenue 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 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;

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

"**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 means (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;

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 is 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 non-payment 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 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) (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 this 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 Bondholder 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 to 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 this 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 this 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 the 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 an Event of Default has occurred and has been waived or a declaration of a 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 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 the Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee

Attention : [●]
Address : [●]
Facsimile : [●]
Telephone: [●]
E-mail : [●]

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) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on 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 in herein.

ii. The Trustee shall, in accordance with these Terms and Conditions, monitor the compliance or non-compliance 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 this 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 this 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 this 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:

i. 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 their respective 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 them 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 this 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 their duties or in the exercise of any of their 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 them under the terms of this 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 this 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 they 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 (the "Removal Effective Date") provided, however, that after the Resignation Effective Date and Removal Effective Date, as relevant, 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 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 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 this 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 this 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 of its 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 the 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 for 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 to 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 requests, 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 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 Joint Lead 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 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 to 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 practice of the Ernst & Young Global, the independent auditors appointed by our Audit Committee, has audited our 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 Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit.

Independent Auditor's Fees and Services

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

	2012	**2011**
	(in millions)	
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 auditor in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice 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 includes out-of-pocket expenses incidental to our independent auditors' work, amount of which do not exceed 5% of the agreed-upon engagement fees.

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

We have no disagreements with our independent auditor on any matter of accounting principles or practices, financial statement 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. 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 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 Php172,626 million and Php35,454 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, 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 entered into preliminary negotiations with a potential buyer and should negotiations with a potential buyer not lead to a sale, we expect to be able to seek other sale opportunities as a number of other potential buyers had been identified; and (3) the Board of Directors expected negotiations to be finalized and the sale to be completed in April 2013. Thus, we adjusted the comparative consolidated income statement for the 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 approximately US$40 million of the proceeds from the sale in 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 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 about 91% and 9% of our wireless service revenues, respectively, in each of first nine months of 2013 and 2012. In previous years, rapid growth in the cellular market has resulted in a change in our revenue composition, with cellular service becoming 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 39% 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 communications such as texting, e-mailing and internet telephony. An increase in our data and other network service revenues in recent years have mitigated such decline to a certain extent. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new data-capable and IP-based 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 SPi Group through its interest in Beta's outstanding common and preferred stocks, and PGIH.

ORGANIZATION

PLDT Group includes the following significant subsidiaries as at September 30, 2013:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Percentage of Ownership Indirect
Wireless				
Smart:	Philippines	Cellular mobile services	100.0	–
Smart Broadband, Inc., or SBI, and 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 charge cards	–	100.0
Smart e-Money, Inc., or SeMI (formerly Smarthub, Inc., or SHI)[(a)]	Philippines	Software development and sale of maintenance and support services	–	100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company	–	100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing	–	100.0
Far East Capital Limited and Subsidiary,	Cayman Islands	Cost effective offshore financing and risk management	–	100.0

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Indirect
or FECL Group		activities for Smart		
PH Communications Holdings Corporation	Philippines	Investment company	–	100.0
Francom Holdings, Inc.:	Philippines	Investment company	–	100.0
Connectivity Unlimited Resource Enterprise, or CURE	Philippines	Cellular mobile services	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider	–	100.0
Smarthub Pte. Ltd., or SHPL:	Singapore	Investment company	–	100.0
Takatack Pte. Ltd. (formerly SmartConnect Global Pte. Ltd., or SGP[b]	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	–	85.0
Voyager Innovations, Inc., or Voyager[c]	Philippines	Mobile applications development and services	–	100.0
Telesat, Inc.[d]	Philippines	Satellite communications services	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Investment Corporation (formerly Mabuhay Satellite Corporation), or MIC[e]	Philippines	Investment company	67.0	–
Digitel Mobile Philippines, Inc., or DMPI, a wholly-owned subsidiary of Digitel	Philippines	Cellular mobile services	–	99.5
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 Subsidiaries	British Virgin Islands	Telecommunications services	100.0	–
Smart-NTT Multimedia, Inc.[d]	Philippines	Data and network services	100.0	–
PLDT-Philcom, Inc., or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	–
ePLDT, Inc., or ePLDT[e]:	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and information technology, or IT, related services	100.0	–
IP Converge Data Services, Inc., or IPCDSI[g]	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services	–	100.0
ABM Global Solutions, Inc., or AGS, and Subsidiaries, or AGS Group[h]	Philippines	Internet-based purchasing, IT consulting and professional services	–	99.2
ePDS, Inc., or ePDS	Philippines	Bills printing and other related value-added services, or VAS	–	67.0
netGames, Inc., or netGames[i]	Philippines	Gaming support services	–	57.5
Digitel:	Philippines	Telecommunications services	99.5	–
Digitel Capital Philippines Ltd., or DCPL[j]	British Virgin Islands	Telecommunications services	–	99.5
Digitel Information Technology Services, Inc.[k]	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, and Subsidiaries	British Virgin Islands	International distributor of Filipino channels and content	60.0	–
Others				
PLDT Global Investments Holdings, Inc., or PGIH (formerly SPi Global Holdings, Inc.)[l][m]	Philippines	Investment company	100.0	–
SPi Global Investments Limited, or SGIL	British Virgin Islands	Investment company	–	100.0
PLDT Global Investments Corporation, or PGIC	British Virgin Islands	Investment company	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV	Philippines	Investment company	–	99.8

(a) 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.

(c) On January 7, 2013, Voyager was incorporated in the Philippine SEC to provide mobile applications development and services.

(d) Ceased commercial operations.

(e) 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.

(f) On June 11, 2012, MySecureSign, Inc., or MSSI, and ePLDT were merged, wherein ePLDT became the surviving company.

(g) On October 12, 2012, ePLDT acquired 100% equity interest in IPCDSI.

(h) 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%.

(i) Ceased commercial operations in January 2013.

(j) Liquidated in January 2013.

(k) Corporate life shortened until June 2013.

(l) 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.

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 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 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.

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 the 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 is the addition of DMPI to our wireless business and the addition of Digitel to our fixed line business. We have agreed with the NTC that we will continue to operate *Sun Cellular* as a separate brand. 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 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 has fallen below the minimum 10% required by the PSE. On February 22, 2012, the PSE granted the petition for voluntary delisting and the Digitel shares were delisted and ceased to be tradable on the PSE effective March 26, 2012.

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 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.

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-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. 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 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 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 BTF, for the issuance of PDRs to be issued by MediaQuest in relation to its indirect interest in Cignal TV, Inc., or Cignal TV (formerly Mediascape, Inc.) Cignal TV is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Cignal TV PDRs confer an economic interest in common shares of Cignal TV indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Cignal TV. Cignal TV operates a direct-to-home, or DTH, Pay-TV business under the brand name "Cignal TV", which is the largest DTH Pay-TV operator in the Philippines with over 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*.

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 Combinationsand 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* and 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, 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 wireless broadband and mobile internet browsing. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. Revenues from local exchange, national and 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 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 included 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 the 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, satelliteand 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:

	September 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	2,183,856
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[(4)]	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 sector-specific, 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's Text 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, 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 2011, 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 increase of 171 million minutes, or 7%, as compared with 2,515 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 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* includesrevenues 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 text-based 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* over-the-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 under its various brands in order to be competitive and maintain industry leadership. Both bucket 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 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 *SmarBro 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 servicesnow 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:

	September 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 single-party 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 while outbound calls 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 500 local outgoing minutes and unlimited incoming calls for one month; (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 is 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 Settlement	
	September 30,	
	2013	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 low-priced 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 destinantions). 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 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:

	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 and terminating to 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 abovenew 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:

	September 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 went 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™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*™ 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*™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 applicationsand 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 telco 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) were 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 charges 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:

	Asset Base	Operating Revenues	Core Income	Market Share[1] Fixed Line[2]	Market Share[1] Cellular
			(in millions)		
Globe[3]	156,200	70,325	9,526	23%	33%
Bayan[4]	–	–	–	–	–

[1] *Based on subscriber base.*
[2] *Estimates based on publicly available information.*
[3] *Based on unaudited 3Q2013 Form 17-Q filed with the PSE and SEC, the latest public filing available.*
[4] *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 ASE 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

CDMA 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 annual report.

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 annual report, 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 between 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
		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(1)	20.0 MHz
		2400-2483.5 MHz(1)	73.0 MHz
		3400-3590 MHz(1)	94.0MHz
		5470-5850 MHz(1)	123.0MHz
CURE	3G	1955-1965/2145-2155 MHz(2)	10.0 MHz
PDSI	BWA (WiMAX)	2332.5-2362.5MHz	30.0 MHz

(1) *SBI frequency assignments on these bands are non-contiguous and are on a per station and location basis.*
(2) *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 E.O. 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 HB 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 anti-competitive 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 anti-competitive 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 15th 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 has 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 31, 2012, 2011 and 2010:

	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 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 – 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 the 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, Php560 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 Php1,470 million, Php8,483 million and Php5,734 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 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'sproperties 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 equipments. 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 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.

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 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 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-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* 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:

	Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1.	PCD Nominee Corporation	Various	38,184,849	Php190,924,245	
		Filipino	39,101,880	195,509,400	35.77
2.	J. P. Morgan Asset Holdings (Hong Kong) Ltd.	Chinese	43,285,347	216,426,735	20.03
3.	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	Php14,570
2010	March 1, 2011	March 16, 2011	April 19, 2011	78	14,567
2010	March 1, 2011	March 16, 2011	April 19, 2011	66	12,326
				222	41,463
2011	August 2, 2011	August 31, 2011	September 27, 2011	78	14,567
2011	March 6, 2012	March 20, 2012	April 20, 2012	63	13,611
2011	March 6, 2012	March 20, 2012	April 20, 2012	48	10,371
				189	38,549
2012	August 7, 2012	August 31, 2012	September 28, 2012	60	12,964
2012	March 5, 2013	March 19, 2013	April 18, 2013	60	12,963
2012	March 5, 2013	March 19, 2013	April 18, 2013	52	11,235
				172	37,162
2013	August 7, 2013	August 30, 2013	September 27, 2013	63	13,612

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 Philippines, 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.

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 condensed consolidated financial statements as at September 30, 2013 and December 31, 2012 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 Janaury 1, 2011 and for the years ended December 31, 2012, 2011 and 2010. This should be read in conjunction with the unaudited interim condensed 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 condensed consolidated financial statements were prepared in compliance with PAS 34, "Interim Financial Reporting" and review 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 were prepared in accordance with the Philippine Financial Reporting Standards and were audited by SGV & Co., in accordance with Philippine Standards on Auditing Standards ("PSA"). 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.

	Nine months ended September		Years ended December 31,		
	2013	2012[1 and 2]	2012[2]	2011[1, 2 and 3]	2010[1 and 2]
			(in millions)		
Income Statement Data:					
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	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[4]	49%	48%	47%	54%	55%
Reported earnings per common share:					
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 common share from continuing operations:					
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 provided by operating activities	51,605	54,822	80,370	79,209	77,260
Net cash 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 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	1,997,671	2,029,359	1,822,105
Number of broadband subscribers:	3,328,369	3,146,667	2,359,024	2,068,409	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	18,975	19,930	15,407
Fixed Line	*9,892*	*10,619*	10,462	11,887	10,242
LEC	*7,151*	*7,811*	7,546	9,072	7,395
Others	*2,741*	*2,808*	2,916	2,815	2,847
Wireless	*8,243*	*8,467*	8,513	8,043	5,165

	September 30,	December 31,		
	2013	2012[2]	2011[2 and 6]	2010[2]
Balance Sheet Data:				
Total assets	390,817	405,815	401,792	278,083
Property, plant and equipment – net	191,578	200,078	200,142	163,184
Cash and cash equivalents and short-term investments	30,374	37,161	46,057	36,678
Total equity attributable to equity holders of PLDT	139,337	145,550	153,861	97,416
Notes payable and long-term debt, including current portion	109,453	115,792	117,275	89,646
Net debt[6] to equity ratio	0.57x	0.54x	0.46x	0.54x

(1) 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.

(2) 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.

(3) 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.

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

(5) 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).

[6] *The December 31, 2011 comparative 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 to the accompanying consolidated financial statements for further discussion.*

The following table shows our financial soundness indicators as at September 30, 2013 and 2012, and December 31, 2012, 2011 and 2010:

	September 30,		December 31,		
	2013	2012	2012	2011	2010
Current Ratio[1]	0.53:1.0	0.61:1.0	0.69:1.0	0.61:1.0	0.76:1.0
Net Debt to Equity Ratio[2]	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[3]	1.02:1.0	1.17:1.0	1.04:1.0	0.90:1.0	0.64:1.0
Asset to Equity Ratio[4]	2.80:1.0	2.83:1.0	2.79:1.0	2.61:1.0	2.85:1.0
Interest Coverage Ratio[5]	6.36:1.0	6.51:1.0	7.13:1.0	7.19:1.0	9.05:1.0
Profit Margin[6]	23%	23%	22%	21%	26%
Return on Assets[7]	9%	7%	9%	9%	14%
Return on Equity[8]	26%	20%	24%	25%	41%
EBITDA Margin[9]	49%	48%	47%	54%	55%

[1] *Current ratio is measured as current assets divided by current liabilities (including current portion – LTD, unearned revenues and mandatory tender option liability.)*
[2] *Net Debt to equity ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by total equity.*
[3] *Net Debt to EBITDA ratio is measured as total debt (long-term debt, including current portion and notes payable) less cash and cash equivalent and short-term investments divided by EBITDA for the 12 months average period.*
[4] *Asset to equity ratio is measured as total assets divided by total equity.*
[5] *Interest coverage ratio is measured by EBIT, or earnings before interest and taxes for the 12 months average period, divided by total financing cost for the 12 months average period.*
[6] *Profit margin is derived by dividing net income for the period with total revenues for the period.*
[7] *Return on assets is measured as 12 months average net income for the period divided by average total assets.*
[8] *Return on Equity is measured as 12 months average net income for the period divided by average total equity.*
[9] *EBITDA margin for the period is measured as EBITDA divided by service revenues for the period.*
EBITDA for the period is measured as net income for the period excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing cost, interest income, equity share in net earnings (losses) of associated and joint ventures, foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, provision for (benefit from) income tax and other income (expenses) for the period.

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 Digital 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 IP-based 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 does not include foreign exchange gains and losses, gains and losses on derivative financial instruments, asset impairments and other non-recurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with PFRS-based measurements, to assist in the evaluation of operating performance. Such PFRS-based measurements include income before income tax and net income. Our calculation of core income may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

MANAGEMENT'S FINANCIAL REVIEW

We use 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(1 and 2)	2012(2)	2011(1,2 and 3)	2010(1 and 2)
			(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 in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.*

(2) *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.*

(3) *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 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(1)	2012(2)	2011(1,2 and 3)	2010(1 and 2)
			(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	–	–	(2,896)	(8,514)	(474)
Retroactive effect of adoption of Revised PAS 19(2)	(1,269)	–	1,287	–	–
Net tax effect of aforementioned adjustments	522	(334)	(644)	1,608	(166)
Others	–	–	–	143	–
Total adjustments	(1,959)	664	(800)	(7,476)	(742)
Adjustment to discontinued operations	2,168	5	(8)	78	(1,027)
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 in Accounting Policies and Disclosures to the accompanying unaudited consolidated financial statements for further discussion.*

(2) *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.*

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

RESULTS OF OPERATIONS

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expenses), income before income tax, provision for income tax, net income/segment profit, EBITDA, EBITDA margin and core income for the 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	Inter-segment Transactions	Consolidated
			(in millions)		
For the nine months ended September 30, 2013					
Revenues	Php88,232	Php47,180	Php–	(Php10,827)	Php124,585
Expenses	60,598	39,892	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[1]	48%	39%	–	(4%)	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)
For the nine months ended September 30, 2012[2 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	20,519	3,017	4,141	319	27,996
Discontinued operations	–	–	–	–	363
EBITDA from continuing operations	41,978	14,713	(15)	529	57,205
EBITDA margin[1]	50%	33%	–	(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[3]					
Revenues	115,932	60,246	–	(12,694)	163,484
Expenses	83,717	52,776	18	(13,531)	122,980
Other income (expenses)	893	(1,781)	4,358	(368)	3,102
Income before income tax	33,108	5,689	4,340	469	43,606
Provision for income tax	8,094	(51)	7	–	8,050
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[1]	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[2, 3 and 4]					
Revenues	103,538	58,290	–	(13,349)	148,479
Expenses	71,009	49,174	11	(13,770)	106,424
Other income (expenses)	(1,734)	(966)	1,998	(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	30,351
Discontinued operations	–	–	–	–	867
EBITDA from continuing operations	55,433	22,382	(11)	421	78,225
EBITDA margin[1]	54%	39%	–	(5%)	55%
Core income	29,903	5,310	2,461	153	38,616
Continuing operations	29,903	5,310	2,461	153	37,827
Discontinued operations	–	–	–	–	789
For the year ended December 31, 2010[2 and 3]					
Revenues	105,381	58,905	–	13,472	150,814
Expenses	59,773	49,545	19	14,050	95,287
Other income (expenses)	(177)	(2,743)	1,371	(355)	(1,904)
Income before income tax	45,431	6,617	1,352	223	53,623
Provision for income tax	11,411	1,897	1	–	13,309
Net income/Segment profit	34,020	4,720	1,351	223	39,825
Continuing operations	34,020	4,720	1,351	223	40,314
Discontinued operations	–	–	–	–	(489)
EBITDA from continuing operations	58,998	22,492	(19)	578	82,049
EBITDA margin[1]	57%	39%	–	(2%)	54%
Core income	33,347	5,420	2,066	223	41,594
Continuing operations	33,347	5,420	2,066	223	41,056
Discontinued operations	–	–	–	–	538

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

(2) *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.*

(3) *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.*

(4) *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:

					Change	
	2013	%	2012(1)	%	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 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:

					Change	
	2013	%	2012(1)	%	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 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:

	2013	%	2012[(1)]	%	Change Amount	Change %
			(in millions)			
Wireless	(Php3,686)	171	Php671	22	(Php4,357)	(649)
Fixed line	(924)	42	(1,581)	(52)	657	(42)
Others	2,743	(127)	4,159	137	(1,416)	(34)
Inter-segment transactions	(301)	14	(210)	(7)	(91)	43
Consolidated	(2,168)	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 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 Php1,099 million; and (v) an increase in consolidated other expense – net by Php5,194 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:

	2013	%	2012[(1)]	%	Change Amount	Change %
			(in millions)			
Wireless	Php17,671	61	Php20,519	72	(Php2,848)	(14)
Fixed line	6,445	22	3,017	11	3,428	114
Others	2,664	9	4,141	15	(1,477)	(36)
Inter-segment transactions	146	1	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 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:

	2013	%	2012[1]	%	Change Amount	Change %
			(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 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:

	2013	%	2012[1]	%	Change Amount	Change %
			(in millions)			
Wireless	Php19,236	67	Php19,298	70	(Php62)	–
Fixed line	7,157	25	3,484	13	3,673	105
Others	2,346	8	4,231	15	(1,885)	(45)
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 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:

	2013	%	2012[1]	%	Increase (Decrease) Amount	Increase (Decrease) %
			(in millions)			
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 (Decrease)	
	2013	2012[(1)]	Amount	%
		(in millions)		
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[(2)]	*1,694*	*1,949*	*(255)*	*(13)*

(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) 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:

	2013	2012	Increase (Decrease) 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	37,273	1,343	4
Inbound	*889*	*910*	*(21)*	*(2)*
Outbound	*37,727*	*36,363*	*1,364*	*4*
International	2,686	2,515	171	7
Inbound	*2,206*	*2,216*	*(10)*	–
Outbound	*480*	*299*	*181*	*61*
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:

	2013	2012[1]	Increase (Decrease) 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 (Decrease)	
	2013	2012[1]	Amount	%
		(in millions)		
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[2]	3,388	2,182	1,206	55
SMS-based[3]	526	459	67	15
Pasa Load/Give-a-load[4]	400	510	(110)	(22)
MMS-based[5]	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.
(3) Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.
*(4) Includes revenues from Pasa Load and Dial*SOS, net of allocated discounts. Pasa Load/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	%
Prepaid	2,586,733	4,623,085	(2,036,352)	(44)
Smart	*(1,193,810)*	*(2,633,657)*	*1,439,847*	*(55)*
Talk 'N Text	*3,477,781*	*6,057,585*	*(2,579,804)*	*(43)*
Sun Cellular	*302,762*	*1,199,157*	*(896,395)*	*(75)*
Postpaid	45,079	280,019	(234,940)	(84)
Smart	*182,680*	*108,162*	*74,518*	*69*
Sun Cellular	*(137,601)*	*171,857*	*(309,458)*	*(180)*
Total	2,631,812	4,903,104	(2,271,292)	(46)

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 %)	
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, 2013 and 2012:

	Gross[(1)]		Increase (Decrease)		Net[(2)]		Increase (Decrease)	
	2013	2012[(3)]	Amount	%	2013	2012[(3)]	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 roaming revenues, by the average number of subscribers in the month.*
(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month.*
(3) *The September 30, 2012 comparative information was adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*

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

	Prepaid						Postpaid			
	Smart		Talk 'N Text		Sun Cellular[(1)]		Smart		Sun Cellular[(1)]	
	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]	Gross[(2)]	Net[(3)]
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

(1) *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.*
(2) *Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(3) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.*
(4) *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 subscriber 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	%
			(in millions)			
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 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-It* 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 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:

	2013	2012[1]	Change Amount	Change %
		(in millions)		
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)
Total	(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:

	2013	%	2012[1]	%	Increase (Decrease) 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:

	2013	2012[1]	Increase (Decrease) 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:

	2013	2012[(1)]	Increase (Decrease) 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, 2012, and a decrease in the average billing rate to Php41.74 in the first 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:

	2013	2012[(1)]	Decrease 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[(1)]	Increase Amount	Increase %
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				
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.

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:

	2013	%	2012[1]	%	Increase (Decrease) Amount	%
			(in millions)			
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	3
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	–

[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 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 millions)		
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 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:

	2013	2012	Change Amount	Change %
		(in millions)		
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 Php314 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 SPi Group, where we reinvested approximately 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[1 and 2]	%	2011[2 and 3]	%	Change Amount	Change %
			(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

(1) Includes the Digitel Group's revenue contribution of Php22,587 million for the full year 2012.
(2) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
(3) 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[1 and 2]	%	2011[2 and 3]	%	Change Amount	Change %
			(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

(1) Includes the Digitel Group's expenses of Php24,183 million for the full year 2012.
(2) 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.
(3) 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:

					Change	
	2012(1 and 2)	%	**2011**(2 and 3)	%	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.*
(2) *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.*
(3) *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 Php14,554 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 Php16,105 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:

					Change	
	2012(1 and 2)	%	**2011**(2 and 3)	%	Amount	%
			(in millions)			
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.*
(2) *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.*
(3) *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:

	2012(1 and 2)	%	2011(2 and 3)	%	Change Amount	Change %
			(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	(Php2,837)	(4)

(1) *Includes the Digitel Group's EBITDA of Php6,040 million for the full year 2012.*
(2) *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.*
(3) *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 Php38,282 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:

	2012(1 and 2)	%	2011(2 and 3)	%	Change Amount	Change %
			(in millions)			
Wireless	Php25,694	70	Php29,903	77	(Php4,209)	(14)
Fixed line	5,769	16	5,765	14	4	–
Others	4,424	12	2,461	6	1,963	80
Inter-segment transactions	469	1	153	1	316	207
Continuing operations	36,356	99	38,282	98	(1,926)	(5)
Discontinued operations	551	1	753	2	(202)	(27)
Consolidated	Php36,907	100	Php39,035	100	(Php2,128)	(5)

(1) *Includes the Digitel Group's core income of Php1,784 million for the full year 2012.*
(2) *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.*
(3) *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:

	2012(1 and 2)	%	2011(2 and 3)	%	Increase (Decrease) Amount	Increase (Decrease) %
			(in millions)			
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.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *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:

	2012(1 and 2)	2011(2 and 3)	Increase 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	4
Postpaid	16,517	9,470	7,047	74
By component	*101,042*	*91,119*	*9,923*	*11*
Voice	49,627	43,884	5,743	13
Data	51,415	47,235	4,180	9
Others(4)	*2,562*	*2,526*	*36*	*1*

(1) *Includes DMPI's cellular service revenues of Php17,241 million for the full year 2012.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *Includes DMPI's cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*
(4) *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:

	2012	2011	Increase (Decrease) Amount	%
Cellular subscriber base	69,866,458	63,696,629	6,169,829	10
Prepaid	67,611,537	61,792,792	5,818,745	9
Smart	*25,061,453*	*28,011,521*	*(2,950,068)*	*(11)*
Talk 'N Text	*28,445,053*	*20,467,175*	*7,977,878*	*39*
Sun Cellular	*14,105,031*	*13,314,096*	*790,935*	*6*
Postpaid	2,254,921	1,903,837	351,084	18
Sun Cellular	*1,571,441*	*1,353,089*	*218,352*	*16*
Smart	*683,480*	*550,748*	*132,732*	*24*
Systemwide traffic volumes (in millions)[1 and 2]				
Calls (in minutes)	53,026	44,192	8,834	20
Domestic	49,598	41,107	8,491	21
Inbound	*1,243*	*1,350*	*(107)*	*(8)*
Outbound	*48,355*	*39,757*	*8,598*	*22*
International	3,428	3,085	343	11
Inbound	*3,025*	*2,862*	*163*	*6*
Outbound	*403*	*223*	*180*	*81*
SMS/Data count (in hits)(in millions) [2 and 3]	510,664	354,135	156,529	44
Text messages	500,199	351,502	148,697	42
Domestic	499,351	350,858	148,493	42
Bucket-Priced/Unlimited	467,737	*322,588*	145,149	45
Standard	31,614	*28,270*	3,344	12
International	848	644	204	32
Value-Added Services	10,412	2,596	7,816	301
Financial Services	53	37	16	43

(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.
(2) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
(3) 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 Php5,805 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 Php8,394 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:

	2012[1 and 2]	2011[2 and 3]	Increase (Decrease) Amount	%
		(in millions)		
Voice 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

(1) Includes DMPI's cellular voice revenues of Php10,676 million of operations for the full year 2012.
(2) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
(3) 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, 2012. 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.

The following table shows the breakdown of our cellular data service revenues for the years ended December 31, 2012 and 2011:

	2012[1]	2011[1]	Increase (Decrease) 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[2]	3,121	1,707	1,414	83
SMS-based[3]	614	652	(38)	(6)
Pasa Load/Give-a-load[4]	693	664	29	4
MMS-based[5]	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

(1) *As 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.*
(3) *Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.*
(4) *Includes revenues from Pasa Load and Dial*SOS, net of allocated discounts. Pasa Load/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 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 Php4,430 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. Bucket-priced/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 (Decrease)	
	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.

The following table summarizes our average monthly churn rates for the years ended December 31, 2012 and 2011:

	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 monthly cellular ARPUs for the years ended December 31, 2012 and 2011:

	Gross[1 and 2]		Decrease		Net[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.
(2) As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.
(3) 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.

Our average monthly prepaid and postpaid ARPUs per quarter in 2012 and 2011 were as follows:

	Prepaid						Postpaid			
	Smart Prepaid		Talk 'N Text		Sun Cellular[1]		Smart		Sun Cellular[1]	
	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]
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
2011[4]										
First Quarter	198	174	129	113	–	–	1,610	1,557	–	–
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	–	–

(1) 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.
(2) Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.
(3) Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.
(4) 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:

	2012	2011	Increase 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 subscriber base increased 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 subscriber base increased by 66,447 subscribers, or 9%, to 771,864 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 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 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:

	2012[1 and 2]	%	2011[2 and 3]	%	Increase (Decrease) Amount	%
			(in millions)			
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

(1) *Includes DMPI's expenses of Php21,485 million for the full year 2012.*
(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.*
(3) *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 Php1,896 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 modems.

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 Php36 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 Php43 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 customer list and franchise of DMPI.

Other expenses decreased by Php205 million, or 20%, to Php809 million primarily due to to lower various business and operational-related expenses, partially offset by the increase in DMPI's other expense by Php14 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:

	2012[1 and 2]	2011[2 and 3]	Change	
			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.*
[2] *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
[3] *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:

	2012[1 and 2]	%	2011[2 and 3]	%	Increase (Decrease) Amount	%
			(in millions)			
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 Digitel's service revenues of Php3,190 million for the full year 2012.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *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:

	2012[1 and 2]	2011[2 and 3]	Increase (Decrease) 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

(1) *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.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(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.*

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:

	2012[1 and 2]	2011[2 and 3]	Increase (Decrease) 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	–	–

(1) *Includes Digitel's international long distance service revenue contribution of Php683 million for the full year 2012.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *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:

	2012[1 and 2]	2011[2 and 3]	Decrease 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.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *Includes Digitel'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:

	2012(1 and 2)	2011(2 and 3)	Increase 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.*
(2) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(3) *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.

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 46% 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 28% 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 (Decrease)	
	2012[1 and 2]	%	2011[2 and 3]	%	Amount	%
			(in millions)			
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.*
(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.*
(3) *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 Php687 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 Php523 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 Php348 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 Php569 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 Php179 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 Php192 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 Php52 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 Php36 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 Php107 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 Php55 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 Php68 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 Php57 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 Php24 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:

	2012[1 and 2]	2011[2 and 3]	Change	
			Amount	%
		(in millions)		
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

[1] *Includes Digitel's other income of Php2,438 million for the full year 2012.*
[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.*
[3] *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, and financing charges, partially offset by a decrease in Digitel's financing costs by Php9 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 due to a higher principal amount of placements and an increase in Digitel's contribution to interest income by Php30 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 in 2011 on account of an increase in Digitel's contribution to foreign exchange gains by Php181 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:

	2012	2011	Change Amount	Change %
		(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 higher cellular 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:

					Change	
	2011(1 and 2)	%	2010(2)	%	Amount	%
			(in millions)			
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.*
[2] *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:

					Change	
	2011(1 and 2)	%	2010(2)	%	Amount	%
			(in millions)			
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

[1] *Includes the Digitel Group's expenses of Php3,785 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.*

Other Income (Expenses)

Consolidated other expenses amounted to Php970 million in 2011, a change of Php934 million from Php1,904 million in 2010, which includes other expenses from the Digitel Group of Php941 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php1,327 million, or 71%, from Php1,871 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 Php1,112 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 Php742 million in 2011; (iii) lower interest income by Php177 million due to to a higher average level of peso and dollar short-term 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:

	2011[1 and 2]	%	2010[2]	%	Change Amount	Change %
			(in millions)			
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.
(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.

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[1 and 2]	%	2010[2]	%	Change Amount	Change %
			(in millions)			
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)

(1) 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:

	2011(1 and 2)	%	2010(2)	%	Change Amount	Change %
			(in millions)			
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.*
(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.*

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(1 and 2)	%	2010(2)	%	Change Amount	Change %
			(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.*
(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.*

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:

	2011(1)	%	2010	%	Increase (Decrease) Amount	Increase (Decrease) %
			(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
Total Wireless Revenues	Php103,538	100	Php105,381	100	(Php1,843)	(2)

(1) *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 (Decrease)	
	2011[1]	2010	Amount	%
		(in millions)		
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[2]	*2,526*	*2,606*	*(80)*	*(3)*

[1] *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.*

[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, 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 (Decrease)	
	2011[1]	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[2]	*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[2]	*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.

(2) *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:

	2011(1)	2010	Decrease Amount	Decrease %
		(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)

(1) *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 was due to higher call volumes resulting from unlimited voice offerings and the inclusion of DMPI's 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:

	2011[1]	2010	Increase (Decrease) Amount	%
		(in millions)		
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[2]	1,707	858	849	99
Pasa Load/Give-a-load[3]	664	483	181	37
SMS-based[4]	652	684	(32)	(5)
MMS-based[5]	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.*

[2] *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.*

[3] *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.*

[4] *Includes revenues from info-on-demand and voice text services, net of allocated discounts and content provider costs.*

[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 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 messages 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 messages 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 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:

	2011	2010	Increase (Decrease) 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	1,011,692	1,178,072	(144,404)	1,218,903	1,868,812	2,144,244	(1,212,389)	1,520,668
Smart Prepaid	*578,535*	*801,112*	*110,411*	*274,411*	*1,473,828*	*1,581,869*	*(1,341,175)*	*690,145*
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:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2011[3]	2010	Amount	%	2011[3]	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(1)	Net(2)
Sun Cellular(4)		
Prepaid	Php75	Php65
Postpaid	450	447

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, gross of discounts, allocated content provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*
(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, 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.*
(3) *As adjusted to reflect certain presentation adjustments to conform with the current presentation of our business segments.*
(4) *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				Postpaid	
	Smart Prepaid		Talk 'N Text		Smart	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
2011(3)						
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

(1) *Gross monthly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(2) *Net monthly ARPU is calculated based on the average of the net monthly ARPUs for the quarter. Net monthly ARPUs 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.*
(3) *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 non-service 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 Php11,243 million, or 19%, from Php59,766 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 (Decrease)	
	2011(1 and 2)	%	**2010**(2)	%	Amount	%
			(in millions)			
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(3)	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

(1) *Includes DMPI's expenses of Php3,083 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.*
(3) *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 inter-operator 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 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 business-related 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(1 and 2)	**2010**(2)	Change Amount	Change %
		(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
Total	(Php1,734)	(Php177)	(Php1,557)	880

(1) *Includes DMPI's expenses of Php763 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.*

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 interest and foreign exchange rates; (iv) an increase in interest income by Php126 million mainly due to a higher 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 Php2,984 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 (Decrease)	
	2011(1 and 2)	**%**	**2010**(2)	**%**	Amount	%
			(in millions)			
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)

(1) *Includes the Digitel's service revenues of Php683 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.*

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:

	2011 (1 and 2)	2010 (2)	Increase (Decrease) 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)

(1) *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.*
(2) *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:

	2011 (1 and 2)	2010 (2)	Increase (Decrease) 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.*
(2) *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:

	2011(1 and 2)	2010(2)	Decrease Amount	%
Total national long distance service revenues (in millions)	Php5,537	Php6,627	(Php1,090)	(16)
National long distance call volumes (in million minutes)	1,126	1,368	(242)	(18)

(1) *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.*
(2) *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:

	2011(1 and 2)	2010(2)	Increase 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

(1) *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.*
(2) *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 was 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 agreement 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.

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:

	2011[1 and]	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
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	17
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)

(1) *Includes Digitel's expenses of Php726 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.*

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:

	2011[1 and 2]	**2010**[2]	Change	
			Amount	%
		(in millions)		
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)

(1) *Includes Digitel's other expenses of Php2,240 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 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 September 30,		Years Ended December 31,		
	2013	2012	2012	2011[1]	2010
			(in millions)		
Cash Flows					
Net cash provided by operating activities	Php51,605	Php54,822	Php80,370	Php79,209	Php77,260
Net cash 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 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 September 30,	As at December 31,		
	2013	2012	2011[1]	2010
(in millions)				
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 payable	–	–	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	Php271,159	Php187,105
Other Selected Financial Data				
Total assets	Php390,817	Php405,815	Php401,792	Php278,083
Property, plant and equipment – net	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 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 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 investment in debt securities of Php501 million; and (6) settlements of derivative financial instruments 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 Php1,910 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 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 2012 from Php54,971 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 and lower corporate taxes paid.

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 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 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 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 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 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 used in financing activities amounted to Php40,204 million in 2011, including the Digitel Group's net cash 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 Association 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[1 and 2]	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[(2)]	57	March 1, 2001 to present
Alfred V. Ty[(2)]	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

(1) *Elected on April 23, 2013.*
(2) *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 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	February 19, 2004 to present
		President and CEO of Smart	January 2000 to present
Ernesto R. Alberto	52	Executive Vice President	January 1, 2012 to present
		Enterprise, International and Carrier Business Head	September 16, 2011 to present
		Customer Sales and Marketing Head	February 1, 2008 to September 15, 2011
		Corporate Business Head	May 15, 2003 to January 31, 2008
Isaias P. Fermin	45	Executive Vice President	June 14, 2013 to present
		HOME Business Head	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	January 5, 1999 to present
		Corporate Secretary	November 24, 1998 to present
		Corporate Affairs and Legal Services Head	January 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present
Anabelle L. Chua	52	Senior Vice President	February 26, 2002 to present
		Corporate Finance and Treasury Head	March 1, 1998 to present
		Treasurer	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 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 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 Office Head	August 1, 2010 to present
		Business Transformation Office – Revenue Team Head	January 1, 2008 to July 2010
		Retail Business Head	June 16, 2004 to December 31, 2007
		Corporate Communications and Public Affairs Head	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	January 1, 2008 to present
		Seconded to MediaQuest	
		Consumer Affairs Group Head	December 5, 2005 to December 31, 2007
		International and Carrier Business Head	June 16, 2004 to December 4, 2005
		Retail Business Head	February 1, 2003 to June 15, 2004
Alejandro O. Caeg	53	Senior Vice President	January 1, 2012 to present
		International and Carrier Business Head	March 1, 2009 to present
June Cheryl A. Cabal-Revilla	40	First Vice President	May 6, 2008 to present
		Financial Reporting and Controllership Head	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	Age	Position(s)	Period during which 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(2)	38	First Vice President	March 5, 2013 to present
Anna Isabel V. Bengzon(2)	40	First Vice President	March 5, 2013 to present
Juan Victor I. Hernandez(2)	40	First Vice President	March 5, 2013 to present
Melissa V. Vergel De Dios(2)	50	First Vice President	March 5, 2013 to present
Martin T. Rio(3)	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(2)	63	Vice President	March 5, 2013 to present
Joselito S. Limjap(2)	51	Vice President	March 5, 2013 to present
Ma. Carmela F. Luque(2)	45	Vice President	March 5, 2013 to present
Walter M. Gaffud(4)	38	Vice President	May 1, 2013 to present
Joseph Ian G. Gendrano(4)	36	Vice President	May 1, 2013 to present
John John R. Gonzales(5)	45	Vice President	June 1, 2013 to present

(1) *Retired effective January 1, 2013.*
(2) *Effective March 5, 2013.*
(3) *Effective October 22, 2012.*
(4) *Effective May 1, 2013.*
(5) *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 sport association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur 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 PLDT Communications and Energy Ventures, Inc. ("PCEV"), Wolfpac Mobile, Inc., Smart Broadband, Inc. and I-CONTACTS Corporation. His other directorships include Digital Telecommunications Phils, Inc. ("Digitel") Digitel Mobile Phils, Inc. ("Digitel Mobile"), SPi Global Holdings, Inc. ("SPi Global") SPi Technologies, Inc. ("SPi Technologies"), SPi CRM, Inc. ("SPi CRM"), Mabuhay Satellite Corporation ("Mabuhay Satellite"), ACeS Philippines Cellular Satellite Corporation ("Aces Philippines"), PLDT Global Corporation ("PLDT Global"), ePLDT, Inc. ("ePLDT"), Philweb Corporation and Rufino Pacific Tower Condominium Corporation. 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 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 and Philippine-Thailand Business 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 15th Telecoms Asia Awards, an influential Asian telecommunications industry magazine in Bangkok.

Mr. Nazareno received his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of 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, 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 is the Head of the Regulatory Affairs and Policies Group of PLDT since March 2008. He also serves as the President and Chief Executive Officer of MediaQuest Holdings, Inc., ABC Development Corporation, Mediascape, Inc., Nation Broadcasting Corporation and other subsidiaries of MediaQuest Holdings, Inc., the Vice Chairman of the Board of Trustees of the PLDT Beneficial Trust Fund, the Vice Chairman of Philweb Corporation, a director and the General Counsel of Meralco, a director and the Chairman of the Audit Committee of the Board of Directors of Lepanto Consolidated Mining Company and a director of several companies engaged in public utility, media and infrastructure businesses.

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, 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. He is currently the Chairman and Chief Executive Officer of JG Summit Holdings, Inc., Robinsons, Inc., Oriental Petroleum and Minerals Corporation, Robinsons Supermarket, Inc. and Robinsons Handyman, Inc. He is the Chairman of Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation and a director of Cebu Air, Inc., CFC Corporation, Robinsons Holdings, Inc., Singapore Land, Ltd., Marina Center Holdings, Inc., United Industrial Corporation and Hotel Marina City Private Limited. He is also the President and Trustee of the Gokongwei Brothers Foundation. He was the Chairman, President and Chief Executive Officer of Digitel Mobile and the Vice Chairman, President and Chief Executive Officer of Digitel, until October 26, 2011. 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 21st 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 6th 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 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 a director of Philcom-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 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 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 Mediascape, 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, is 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:

Name of Director	**Names of Companies**	
	Public	**Private**
Helen Y. Dee	EEI Corporation (Regular Director) National Reinsurance Corporation of the Philippines (Regular Director/Chairman) Petro Energy Resources Corporation (Regular Director/Chairman) Rizal Commercial Banking Corporation (Regular Director/Chairman) Seafront Resources Corporation (Regular Director/Chairman)	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) Hi-Eisai Pharmaceuticals, Inc. (Regular Director/Chairman) Honda Cars, Kaloocan (Regular Director) Honda Cars Philippines, Inc. (Regular Director) House of Investments, Inc. (Regular Director/Chairman)] Hydee Management & Resource Corp. (Regular Director/Chairman) Isuzu Philippines, Inc. (Regular Director) La Funeraria Paz Sucat (Regular Director/Chairman) Landev Corp. (Regular Director/Chairman) Maibarara Geothermal, Inc. (Regular Director/Chairman) Malayan Insurance Company (Regular Director/Chairman) Manila Memorial Park Cemetery, Inc. (Regular Director/Chairman) Mapua Information Technology Center, Inc. (Regular Director/Chairman) MICO Equities, Inc. (Regular Director) Mijo Holdings, Inc. (Regular Director/Chairman) Moira Management, Inc. (Regular Director) Pan Malayan Express (Regular Director) Pan Malayan Management and Investment Corporation (Regular Director/Vice Chairman) Pan Malayan Realty Corp. (Regular Director/Chairman) Petro Green Energy Corporation(Regular Director/Chairman) Philippine Integrated Advertising Agency, Inc. (Regular Director) RCBC Forex Brokers Corp (Regular Director) RCBC Leasing & Finance Corp (Regular Director/Chairman) RCBC Savings Bank (Regular Director/Chairman) South Western Cement Corporation (Regular Director) Sunlife Grepa Financial, Inc. (Regular Director) Tameena Resources, Inc. (Regular Director/Chairman) West Spring Development Corp. (Regular Director/Vice Chairman) Xamdu Motors, Inc. (Regular Director/Chairman) YGC Corporate Services, Inc. (Regular Director)
Ray C. Espinosa	Digital Telecommunications Phils., Inc.(Regular Director) Lepanto Consolidated Mining Company (Independent Director) Manila Electric Company (Regular Director) Metro Pacific Investments Corporation (Regular Director) Philweb Corporation (Regular Director/Vice Chairman)	Beacon Electric Asset Holdings, Inc. (Regular Director) Bonifacio Communications Corp. (Regular Director) Business World Publishing Corporation (Regular Director) Cinegear, Inc. (Regular Director/Chairman) Digitel Crossing, Inc. (Regular Director) Digitel Mobile Phils, Inc. (Regular Director) Hastings Holdings, Inc. (Regular Director/Chairman) Med Vision Resources, Inc. (Regular Director/ Chairman) Media5 Marketing Corporation (Regular Director) Meralco PowerGen Corporation (Regular Director) Metro Pacific Assets Holdings, Inc. (Regular Director) Metro Pacific Holdings, Inc. (Regular Director) Metro Pacific Resources, Inc. (Regular Director) NTT Communications Philippines Corporation (Regular Director) Philippine Telecommunications Investment Corp. (Regular Director) Philstar Daily, Inc. (Regular Director) Philstar Global Corporation (Regular Director) Pilipinas Global Network Limited (Regular Director) Pilipino Star Ngayon, Inc. (Regular Director) SatVentures, Inc. (Regular Director) Studio5, Inc. (Regular Director/Chairman) Telemedia Business Ventures, Inc. (Regular Director/Chairman) The Philippine Home Cable Holdings, Inc (Regular Director) Unilink Communications Corp (Regular Director/Chairman) Unitel Productions, Inc. (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:

1. 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-I, 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 committee 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 non-audit 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 external 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 their oversight responsibilities, the audit committee has reviewed and discussed the audited 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 auditor, who is responsible for expressing an opinion on the conformity of the PLDT Group's audited 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 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 auditor.

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 non-independent 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 thereto, 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.[1]	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[2]	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

(1) *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 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	Actual	
		(in millions)	
President and CEO[1] and four most highly compensated executive officers:			
Salary[2]	Php62	Php58	Php53
Bonus[3]	16	15	13
Other compensation[4]	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[2]	238	244	239
Bonus[3]	61	62	61
Other compensation[4]	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, 13th 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 SatisfactionObjectives. 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 andTechnology 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 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.

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 Php1,490 million. Total outstanding liability and fair value of 2012 to 2014 LTIP cost amounted to Php2,657 million and Php1,490 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 of Class	Name and Address of Record Owner and Relationship With Issuer	Citizenship	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Philippine Telecommunications Investment Corporation[1] 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263[2]	12.05
Common	Metro Pacific Resources, Inc.[3] c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	21,556,676[2]	9.98
Common	NTT Communications Corporation[4] 1-1-6 Uchisaiwai-cho, 1-chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote (5)	12,633,487	5.85
Common	NTT DOCOMO, Inc.[6] 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote (5)	22,796,902[7]	10.55
Common	PCD Nominee Corporation[8] 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas St. Makati City	Philippine Corporation	See Footnote (8)	77,286,729	35.77
Common	J. P. Morgan Asset Holdings (HK) Limited[9] (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote (9)	43,285,347	20.03
Common	JG Summit Group[10] 42/F Robinsons Equitable Tower ADB Avenue corner Poveda Road Ortigas Center, Pasig City	Philippine Corporation	See Footnote (10)	17,305,625	8.01

(1) *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 and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.*

(2) *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.*

(3) *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.*

(4) *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.*

(5) *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 43,963,642 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.*

(6) *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 Yamamoto, 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.*

(7) *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.*

(8) *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.

(9) *JP JP Morgan Asset Holdings (HK) Limited holds shares as nominee of JPMorgan 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.

(10) *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 Corporation, 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 proxies 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 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 Class	Number of shares (1)	Amount of Holdings (Based on par value)	Percentage of Class
Manuel V. Pangilinan Chairman of the Board 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	244,450	Php1,222,250	0.113142
Napoleon L. Nazareno Director President and CEO 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	19,927 (2)	99,635	0.009223
Helen Y. Dee Director 3/F Grepalife Bldg. Sen. Gil Puyat Ave., Makati City	Filipino	Common	98	490	0.000045
James L. Go Director 43/F Robinson's Equitable Tower ADB Avenue corner Poveda Road Ortigas Center, Pasig City	Filipino	Common	134,914	674,570	0.062444
Setsuya Kimura Director 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Japanese	Common	1	5	0.000000
Hideaki Ozaki Director 4-12-22-301 Fukasawa	Japanese	Common	1	5	0.000000

Name of Record and Address	Citizenship	Title of Class	Number of shares [1]	Amount of Holdings	Percentage of Class
Setagaya-ku Tokyo 158-0081, Japan					
Pedro E. Roxas Independent Director 7/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village Makati City	Filipino	Common	231	1,155	0.000107
Juan B. Santos Director Chairman, Social Security Commission 12/F SSS Building, Ayala Ave., cor Herrera St., Makati City 1227	Filipino	Common	2	10	0.000001
Alfred V. Ty Independent Director 20/F GT Tower Ayala Avenue, Makati City	Filipino	Common	1	5	0.000000
Tony Tan Caktiong Director 10/F Jollibee Plaza Emerald Avenue, Ortigas Center Pasig City	Filipino	Common	1	5	0.000000
Ray C. Espinosa Director Regulatory Affairs and Policies Group 16/F Locsin Bldg., Ayala Avenue cor. Makati Avenue, Makati City	Filipino	Common	18,743[2]	93,715	0.008675
Ma. Lourdes C. Rausa-Chan Director Corporate Secretary, Chief Governance Officer and Senior Vice President, Corporate Affairs and Legal Services 9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	699[2]	3,495	0.000324
Artemio V. Panganiban Independent Director 1203 Acacia St., Dasmariñas Village Makati City	Filipino	Common	1	5	0.000000
Ernesto R. Alberto Executive Vice President, Customer Sales and Marketing Group 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	–	–	–
Isaias P. Fermin Executive Vice President PLDT HOME Business 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	–	–	–
Anabelle L. Chua Treasurer and Senior Vice President, Corporate Finance and Treasury 26/F Smart Tower Ayala Avenue, Makati City	Filipino	Common	12,078[2]	60,390	0.005590
Rene G. Bañez Senior Vice President, Supply Chain and Asset Protection and Management Group 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	1	5	0.000000
Claro Carmelo P. Ramirez Senior Vice President Office of the President and CEO 7/F Ramon Cojuangco Bldg.,	Filipino	Common	11,500	57,500	0.005323

Name of Record and Address	Citizenship	Title of Class	Number of shares [1]	Amount of Holdings	Percentage of Class
Makati Avenue, Makati City					
Menardo G. Jimenez, Jr. Senior Vice President, Human Resources, Business Transformation Office 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common	22	110	0.000010
Jun R. Florencio Senior Vice President, Internal Audit and Fraud Risk Management 6/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	515[2]	2,575	0.000238
Alejandro O. Caeg Senior Vice President, International and Carrier Business Head 9/F PLDT-MGO Bldg., Legaspi cor. Dela Rosa Sts., Makati City	Filipino	Common	200[3]	1,000	0.000093
June Cheryl A. Cabal-Revilla First Vice President Financial Reporting and Controllership 11/F Ramon Cojuangco Bldg., 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.
(2) Includes PLDT common shares that have been lodged with the Philippine Central Depository, Inc.
(3) 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 BTF Holdings, Inc., a wholly-owned company of the Board of Trustees for the Account of the Beneficial Trust Fund created pursuant to the Benefit Plan of PLDT. On October 15, 2012, PLDT and BTF Holdings, Inc. executed a Subscription Agreement pursuant to which PLDT agreed to issue to BTF Holdings, Inc., 150 million shares of Voting Preferred Stock subscribed at a subscription price of P1.00 per share, or a subscription price of Php150 million. On October 16, 2012, PLDT issued to BTF Holdings, Inc., 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 of October 31, 2013 (Record Date)		
Class of Shares	Number of Authorized Shares (in millions)	Par Value	Number of Outstanding Shares (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 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:

Description	Interest Rates	(in millions) (Unaudited)	
U.S. Dollar Debts:			
Export Credit Agencies-Supported Loans:			
China Export and Credit Insurance Corporation, or Sinosure	US$ LIBOR + 0.55% to 1.80%	US$133	Php5,804
Exportkreditnamnden, or EKN	1.90% to 3.79% and US$ LIBOR + 0.30% to 0.35%	98	4,259
EKN and AB Svensk Exportkredit, or SEK	3.9550%	59	2,571
Finnvera, Plc, or Finnvera	2.99% and US$ LIBOR + 1.35%	30	1,289
Others	US$ LIBOR + 0.35% to 0.40	1	34
		321	13,957
Fixed Rate Notes	8.35%	233	10,130
Term Loans:			
Debt Exchange Facility	2.25%	–	–
GSM Network Expansion Facilities	US$ LIBOR + 0.42% to 1.85%	131	5,713
Others	US$ LIBOR + 0.42% to 1.90%	685	29,833
		US$1,370	Php59,633
Philippine Peso Debts:			
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
Total long-term debt			109,453
Less portion maturing within one year			14,252
Noncurrent portion of long-term			Php95,201

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:

Year	U.S. Dollar Debt In U.S. Dollar	U.S. Dollar Debt In Php	Php Debt In Php	Total In Php
		(in millions)		
2013[1]	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

[1] *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[1], 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 US 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 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.

[1] Elected as independent director effective April 23, 2013.

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[2] 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[3].

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[4].

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

The Audit Committee's activities in 2012 with respect to our external auditor 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 US 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.

[2] 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.
[3] Php200,000 per diem for each director, for every meeting attended.
[4] Php200,000 per diem for each member, for every meeting attended.

The Audit Committee conducted an evaluation of SGV's performance for 2011, and resolved to re-appoint SGV as PLDT's external 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 and SGV, conducted a review of PLDT's audited financial statements for 2011 prepared in accordance with PFRS and IFRS, and the final results and report 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 US SEC filing, respectively. It also reviewed and discussed with Finance officers, PLDT's unaudited 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, Chief Legal 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[5].

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 non-executive directors. The GNC also has three non-voting members composed of an independent member of the Advisory Committee[5], 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%20Charter.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.

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[6].

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 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.[7]

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:

[5] Php75,000 per diem for each director, for every meeting attended.[5] 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.
[6] Php 75,000 per diem for each director, for every meeting attended.
[7] Php 75,000 per director for each meeting attended.

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[8].

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.

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

[8] Php75,000 per director for each meeting attended.

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 supersedes 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
- th`e 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 US SEC and NYSE corporate governance rules, as may be appropriate and applicable.

To access the Code of Ethics, the CG Manual or information on how 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_manual.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 offices 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 *lrchan@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 recommended 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 will take 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 Committees accomplish their respective 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 & Compliance and Committee Governance. The results of the assessment process are duly reported to, as 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)[9].

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.

[9] 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 Consolidated Financial Statements as at September 30, 2013 and December 31, 2012 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.