PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
March 27, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2012**

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph;

Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines

(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Capital Stock, Par Value Five Philippine Pesos Per Share	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one share of Common Capital Stock	New York Stock Exchange

* *Registered on the New York Stock Exchange not for trading but only in connection with the registration of American Depositary Shares, or ADSs, pursuant to the requirements of such stock exchange*.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

8.350% Notes due March 2017

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as at the close of the period covered by the annual report.

As at December 31, 2012:
216,055,775 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
36,002,970 shares of Non-voting Preferred Stock, Par Value Ten Philippine Pesos Per Share
150,000,000 shares of Voting Preferred Stock, Par Value One Philippine Peso Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (of for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT mean Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see *Note 2 Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18 for a list of these subsidiaries, including a description of their respective principal business activities).

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

All references to the Philippines contained in this report mean the Republic of the Philippines and all references to the U.S. or the United States are to the United States of America.

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or are to the lawful currency of the European Union. Unless otherwise indicated, conversion of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php41.08 to US$1.00 on December 31, 2012. On March 22, 2013, the volume weighted average exchange rate quoted was Php40.82 to US$1.00.

In this annual report, each reference to:

3rd Brand means 3rd Brand Pte. Ltd., an 85.0%-owned subsidiary of SHPL;

ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, a wholly-owned subsidiary of PLDT;

ADRs means American Depositary Receipts;

ADSs means American Depositary Shares;

AIL means ACeS International Limited, a 36.99%-owned associate of ACeS Philippines;

Airborne Access means Airborne Access Corporation, a 99.4%-owned subsidiary of SBI;

AGS means ABM Global Solutions, Inc. and subsidiaries, or AGS Group, a 99.2%-owned subsidiary of ePLDT;

ARPU means average revenue per user;

BayanTel means Bayan Telecommunications, Inc.;

BCC means Bonifacio Communications Corporation, a 75.0%-owned subsidiary of PLDT;

Beacon means Beacon Electric Asset Holdings, Inc., 50.0%-owned by PCEV;

BIR means Bureau of Internal Revenue;

BPO means business process outsourcing;

BSP means Bangko Sentral ng Pilipinas;

BTS means base transceiver station;

CBA means collective bargaining agreement;

CEO means chief executive officer;

CG means Corporate Governance;

CG Manual means PLDT Manual on Corporate Governance;

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CGO means Corporate Governance Office;

Chikka means Chikka Holdings Limited, a wholly-owned subsidiary of Smart;

ClarkTel means PLDT Clark Telecom, Inc., a wholly-owned subsidiary of PLDT;

CMTS means cellular mobile telephone system;

Code of Ethics means PLDT s Code of Business Conduct and Ethics;

CPCN means Certificate of Public Convenience and Necessity;

CSRs means customer service representatives;

CURE means Connectivity Unlimited Resource Enterprise, Inc., a wholly-owned subsidiary of FHI;

CyMed means CyMed, Inc., a wholly-owned subsidiary of SPi;

DFON means domestic fiber optic network;

Digitel means Digital Telecommunications Philippines, Inc., a 99.5%-owned subsidiary of PLDT;

DITSI means Digitel Information Technology Services, Inc., a wholly-owned subsidiary of Digitel;

DMPI means Digitel Mobile Philippines, Inc., a wholly-owned subsidiary of Digitel, that owns the *Sun Cellular* business;

DSL means digital subscriber line;

ECC means the Executive Compensation Committee;

ePLDT means ePLDT, Inc., a wholly-owned subsidiary of PLDT;

FECL means Far East Capital Limited, a wholly-owned subsidiary of Smart;

First Pacific means First Pacific Company Limited;

First Pacific Group means First Pacific and its Philippine affiliates;

FHI means Francom Holdings, Inc., a wholly-owned subsidiary of Smart;

FPHC means First Philippine Pacific Holdings Corporation;

FPUC means First Philippine Utilities Corporation;

GAAP means generally accepted accounting principles;

Globe means Globe Telecom, Inc.;

GNC means the Governance and Nomination Committee;

GSM means global system for mobile communications;

HB means House Bill;

I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;

ICT means information and communications technology;

IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;

Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of SPi Global;

IP means internet protocol;

IPCDSI means IP Converge Data Services, Inc., a wholly-owned subsidiary of ePLDT;

ISP means internet service providers;

Laguna Medical means Laguna Medical Systems, Inc., a wholly-owned subsidiary of SPi;

Laserwords means Laserwords Private Ltd., a wholly-owned subsidiary of SPi;

LEC means local exchange carrier;

LTIP means long-term incentive plan;

MIC means Mabuhay Investment Corporation (formerly Mabuhay Satellite Corporation), a 67.0%-owned subsidiary of PLDT;

Maratel means PLDT-Maratel, Inc., a 97.8%-owned subsidiary of PLDT;

MediaQuest means MediaQuest Holdings, Inc., a wholly-owned entity of the PLDT Beneficial Trust Fund;

Meralco means Manila Electric Company;

MPIC means Metro Pacific Investments Corporation, a subsidiary of First Pacific;

MPRI means Metro Pacific Resources, Inc.;

netGames means netGames, Inc., a 57.5%-owned subsidiary of ePLDT;

NGN means Next Generation Network;

NTC means the National Telecommunications Commission of the Philippines;

NTT means Nippon Telegraph and Telephone Corporation;

NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of NTT;

NTT DOCOMO means NTT DOCOMO, Inc., a majority-owned and publicly traded subsidiary of NTT;

NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;

NYSE means New York Stock Exchange;

PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;

PCD means PCD Nominee Corporation;

PCEV means PLDT Communications and Energy Ventures, Inc., a 99.8%-owned subsidiary of Smart;

PDRs means Philippine Depository Receipts;

PDSI means Primeworld Digital Systems, Inc., a wholly-owned subsidiary of Smart;

PFRS means Philippine Financial Reporting Standards;

PGCI means Philippine Global Communications, Inc.;

PGNL means Pilipinas Global Network Limited, a majority-owned subsidiary of PLDT;

PHC means PH Communications Holdings Corporation, a wholly-owned subsidiary of Smart;

Philcom means PLDT-Philcom, Inc., a wholly-owned subsidiary of PLDT;

Philippine SEC means the Philippine Securities and Exchange Commission;

PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;

PLDT Global means PLDT Global Corporation, a wholly-owned subsidiary of PLDT;

PLP means PLDT Landline Plus;

PSE means the Philippine Stock Exchange, Inc.;

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PTIC means Philippine Telecommunications Investment Corporation;

SBI means SmartBroadband, Inc., a wholly-owned subsidiary of Smart;

SHPL means Smarthub Pte. Ltd., a wholly-owned subsidiary of Smart;

SGIL means SPi Global Investment Ltd., a wholly-owned subsidiary of SPi;

SGP means SmartConnect Global Pte. Ltd., a wholly-owned subsidiary of SHPL;

SHI means Smarthub, Inc., a wholly-owned subsidiary of Smart;

SIM means subscriber identification module;

Smart means Smart Communications, Inc., a wholly-owned subsidiary of PLDT;

SMHC means Smart Money Holdings Corporation, a wholly-owned subsidiary of Smart;

SMI means Smart Money, Inc., a wholly-owned subsidiary of SMHC;

SMS means short messaging service;

SNMI means Smart-NTT Multimedia, Inc., a wholly-owned subsidiary of PLDT;

SPi means SPi Technologies, Inc., a wholly-owned subsidiary of SPi Global;

SPi CRM means SPi CRM Inc., a wholly-owned subsidiary of SPi Global;

SPi Group means SPi and its subsidiaries;

SPi Global means SPi Global Holdings, Inc., a wholly-owned subsidiary of PLDT;

Springfield means Springfield Service Corporation, a wholly-owned subsidiary of SPi;

SRC means the Securities Regulation Code of the Philippines;

SRF means supervision and regulation fees;

SubicTel means PLDT Subic Telecom, Inc., a wholly-owned subsidiary of PLDT;

TSC means the Technology Strategy Committee;

U.S. SEC means the United States Securities and Exchange Commission;

VAS means value-added service;

VAT means value-added tax;

VoIP means voice over internet protocol;

WAP means wireless application protocol;

WCI means Wireless Card, Inc., a wholly-owned subsidiary of Smart;

W-CDMA means wideband-code division multiple access;

WiMax means Worldwide Interoperability for Microwave Access; and

Wolfpac means Wolfpac Mobile, Inc., a wholly-owned subsidiary of Smart.

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FORWARD-LOOKING STATEMENTS

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information Risk Factors. When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this report.

You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2012 and 2011 and for the three years in the period ended December 31, 2012, included in Item 18 of this annual report on Form 20-F have been prepared in conformity with IFRS.

In accordance with rule amendments adopted by the U.S. SEC, which became effective on March 4, 2008, we do not provide a reconciliation to U.S. GAAP.

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. We adjusted the comparative consolidated income statements for the years ended December 31, 2008 to 2011 to present the results of operations of our BPO business as discontinued operations. See Item 4. Information on the Company Recent Developments , *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 audited consolidated financial statements in Item 18 for a further discussion of the classification of the BPO segment as an asset held-for-sale.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Performance Indicators

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

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Adjusted EBITDA

Adjusted EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity share in net earnings (losses) of associates and joint ventures, foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net, provision for (benefit from) income tax and other income (expenses). Adjusted EBITDA is monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Adjusted EBITDA is presented because our management believes that it is widely used by investors in their analysis of the performance of PLDT and can assist them in their comparison of PLDT s performance with those of other companies in the technology, media and telecommunications sector. We also present Adjusted 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 Adjusted EBITDA as a supplement to financial measures in accordance with IFRS or United States GAAP. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, nor should Adjusted EBITDA be considered 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 IFRS. Unlike net income, Adjusted 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 Adjusted EBITDA as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-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 Adjusted EBITDA. Our calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

A reconciliation of our consolidated Adjusted EBITDA to our consolidated net income for the years ended December 31, 2012, 2011 and 2010 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18.

Core Income

Core income is measured as net income attributable to equity holders of PLDT (net income less net income attributable to non-controlling interests), excluding foreign exchange gains (losses) net, gains (losses) on derivative financial instruments net (excluding hedge costs), asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures. 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 IFRS 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 nonrecurring gains and losses. We compensate for these limitations by using core income as only one of several comparative tools, together with IFRS-based measurements, to assist in the evaluation of operating performance. Such IFRS-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. A reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2012, 2011 and 2010 is presented in Item 5. Operating and Financial Review and Prospects Management s Financial Review and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18.

Selected Financial Data

The selected consolidated financial information below as at December 31, 2012 and 2011 and for the financial years ended December 31, 2012, 2011 and 2010, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, and the accompanying notes, included elsewhere in Item 18 of this annual report on Form 20-F. As disclosed under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 have been prepared and presented in conformity with IFRS.

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	2012[1]	2012[2]	2011[3]	2010	2009	2008
	(in millions, except earnings per common share amounts, weighted average number of common shares, ratio of earnings to fixed charges and dividends declared per common share amounts)					
Statements of Operating Data[4]:						
Revenues	US$ 4,202	Php172,626	Php156,603	Php158,387	Php162,023	Php160,492
Service revenues	4,122	169,331	153,958	156,170	159,597	157,528
Continuing operations	3,899	160,189	145,834	148,597	151,706	149,334
Discontinued operations	223	9,142	8,124	7,573	7,891	8,194
Non-service revenues continuing operations	80	3,295	2,645	2,217	2,426	2,964
Expenses[3]	3,218	132,185	113,382	102,831	104,141	100,441
Continuing operations	3,019	124,023	106,102	94,676	96,171	90,993
Discontinued operations	199	8,162	7,280	8,155	7,970	9,448
Net income (loss) for the year	862	35,401	31,637	40,259	40,095	34,976
Continuing operations	846	34,741	30,806	40,744	40,676	36,893
Discontinued operations	16	660	831	(485)	(581)	(1,917)
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	3.99	163.86	163.24	212.85	210.38	179.96
Diluted	3.99	163.86	163.10	212.85	210.36	179.95
Earnings per common share from continuing operations for the year attributable to equity holders of PLDT						
Basic	3.91	160.80	158.90	215.45	213.49	190.15
Diluted	3.91	160.80	158.77	215.45	213.47	190.14
Balance Sheets Data[5]:						
Cash and cash equivalents	905	37,161	46,057	36,678	38,319	33,684
Total assets	9,992	410,468	399,822	277,815	280,148	252,558
Total long-term debt net of current portion	2,503	102,811	91,273	75,879	86,066	58,899
Total debt[6]	2,819	115,792	117,275	89,646	98,729	73,911
Total liabilities	6,359	261,226	247,603	180,430	181,023	145,589
Total equity attributable to equity holders of PLDT	3,629	149,060	151,833	97,069	98,575	105,531
Weighted average number of common shares for the year (in thousands)		216,055	191,369	186,790	186,916	188,163
Other Data:						
Depreciation and amortization	799	32,820	27,957	26,277	25,607	24,709
Continuing operations	788	32,354	27,539	25,881	25,159	24,151
Discontinued operations	11	466	418	396	448	558
Ratio of earnings to fixed charges[7]	5.3x	5.3x	6.0x	7.0x	7.4x	7.4x
Net cash provided by operating activities	1,956	80,370	79,209	77,260	74,386	78,302
Net cash used in investing activities	951	39,058	29,712	23,283	49,132	17,014
Net cash used in financing activities	1,184	48,628	40,204	55,322	20,293	45,464
Dividends declared to common shareholders	899	36,946	41,460	40,909	38,758	36,578
Dividends declared per common share	4.16	171.00	222.00	219.00	207.00	194.00

(1) *We maintain our accounts in Philippine pesos, the functional and presentation currency under IFRS. For convenience, the Philippine peso financial information as at and for the year ended December 31, 2012, has been converted into U.S. dollars at the exchange rate of Php41.08 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2012. This conversion should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.*

(2) *Includes the Digitel Group s results of operations for the full year 2012.*

(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) *The 2008 to 2011 results have been restated to reflect the discontinued operations of the BPO, segment. See Presentation of Financial Information section, Item 4. Information on the Company Recent Developments , 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 audited consolidated financial statements in Item 18 for a further discussion of the*

classification of the BPO segment as an asset held-for-sale.

(5) *The December 31, 2011 comparative information was restated to reflect the adjustment to the provisional amounts used in the purchase price allocation in relation to the acquisition of Digitel.*

(6) *Total debt represents the sum of (i) current portion of long-term debt; (ii) long-term debt net of current portion; and (iii) notes payable.*

(7) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for noncontrolling interests in consolidated subsidiaries or income or loss from equity investees; (b) fixed charges; (c) amortization of capitalized interest; (d) distributed income of equity investees; and (e) share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest; (2) preference security dividend requirements of consolidated subsidiaries; and (3) the noncontrolling interests in pre-tax income of subsidiaries that have not incurred fixed charges.*

Fixed charges consist of interest expense and capitalized interest, amortized premiums, discounts and capitalized expenses related to indebtedness, an estimate of interest within rental expense, and preference security dividend requirements of consolidated subsidiaries.

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Capital Stock

The following table summarizes PLDT s capital stock issued as at December 31, 2012 and 2011:

	December 31, 2012	2011
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to II	Php	Php 4,059
Series IV Cumulative Non-convertible Redeemable Preferred Stock	360	360
Voting Preferred Stock	150	
	Php 510	Php 4,419
Common Stock	Php 1,080	Php 1,072

Dividends Declared

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

Earnings	Date Approved	Record	Payable	Amount Per share (in pesos)	Total Declared (in million)
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	Php 14,570
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	Php 37,162

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.

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Dividends Paid

The following table shows a summary of dividends paid per share of PLDT s common stock stated in both Philippine peso and U.S. dollars:

		In Philippine Peso	In U.S. Dollars
2008		194.00	4.47
Regular Dividend	April 21, 2008	68.00	1.62
Regular Dividend	September 22, 2008	70.00	1.51
Special Dividend	April 21, 2008	56.00	1.34
2009		207.00	4.30
Regular Dividend	April 21, 2009	70.00	1.45
Regular Dividend	September 22, 2009	77.00	1.62
Special Dividend	April 21, 2009	60.00	1.24
2010		219.00	4.95
Regular Dividend	April 20, 2010	76.00	1.71
Regular Dividend	September 21, 2010	78.00	1.78
Special Dividend	April 20, 2010	65.00	1.46
2011		222.00	5.10
Regular Dividend	April 19, 2011	78.00	1.80
Regular Dividend	September 27, 2011	78.00	1.78
Special Dividend	April 19,2011	66.00	1.52
2012		171.00	4.04
Regular Dividend	April 20, 2012	63.00	1.48
Regular Dividend	September 28, 2012	60.00	1.44
Special Dividend	April 20,2012	48.00	1.12

Dividends on PLDT s common stock were declared and paid in Philippine pesos. For the convenience of the reader, the Philippine peso dividends are converted into U.S. dollars based on the Philippine Dealing System Reference Rate on the respective dates of dividend payments.

Exchange Rates

The Philippine government does not administratively fix the exchange rate between the Philippine peso and the U.S. dollar. Since August 1, 1992, a market average rate has been determined daily in inter-bank trading using the Philippine Dealing System, known as the Philippine Dealing System Reference Rate. The Philippine Dealing System is a specialized off-floor direct dealing service for the trading of Philippine pesos-U.S. dollars by member banks of the Bankers Association of the Philippines, or BAP, and BSP, the central bank of the Philippines. All members of the BAP are required to make their Philippine peso-U.S. dollar trades through this system, which was established by Telerate Financial Information Network of Hong Kong.

The following table shows the exchange rates between the Philippine peso and the U.S. dollar, expressed in Philippine pesos per U.S. dollar, for the periods indicated, based on the volume-weighted average exchange rate for each business day in each of the periods presented:

	Year Ended December 31,			
	Period End	Average(1)	High(2)	Low(3)
2008	Php 47.65	Php 44.71	Php 40.36	Php 49.98
2009	46.43	47.82	45.95	49.06
2010	43.81	45.10	42.52	46.98
2011	43.92	43.28	41.96	44.59
2012	41.08	42.14	40.86	44.25
2013 (through March 22, 2013)	40.82	40.69	40.57	40.90

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates on the last day of each month during the period.*
(2) *Highest exchange rate for the period.*
(3) *Lowest exchange rate for the period.*

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	Period End	Month Average[1]	High[2]	Low[3]
2012				
September	Php 41.74	Php 41.73	Php 41.45	Php 42.03
October	41.21	41.43	41.21	41.82
November	40.89	41.11	40.88	41.32
December	41.08	41.02	40.86	41.19
2013				
January	40.67	40.71	40.57	40.90
February	40.66	40.67	40.60	40.74
March (through March 22, 2013)	40.82	40.70	40.59	40.82

Source: Philippine Dealing System Reference Rate

(1) *Calculated by using the average of the exchange rates during the month.*
(2) *Highest exchange rate for the month.*
(3) *Lowest exchange rate for the month.*

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the Philippine Dealing System Reference Rate as at December 31, 2012 of Php41.08 to US$1.00. You should not assume that such Philippine peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at March 22, 2013, the exchange rate quoted through the Philippine Dealing System was Php40.82 to US$1.00. Unless otherwise specified, the weighted average exchange rate of the Philippine peso to the U.S. dollar for a given year used in the following discussions in this report was calculated using the average of the daily exchange rates quoted through the Philippine Dealing System during the year.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

You should carefully consider all of the information in this annual report, including the risks and uncertainties described below. If any of the following risks actually occurs, it could have a material adverse effect on our business, financial condition or results of operations and the trading price of our ADSs could decline and you could lose all or part of your investment.

Risks Relating to Us

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, 8 international gateway facility, or 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

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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. The cellular penetration rate in the country, however, has already reached an estimated 105%, 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 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.

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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. See Item 4. Information on the Company Licenses and Regulations for a description of our licenses. 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 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 and/or additional taxes and that the PLDT Group would be able to impose additional charges or fees on its customers to compensate for the imposition of such taxes. There are bills in the 15th Philippine Congress that propose to tax telecommunications services. HB No. 138 proposes to impose a 7% Computer Education Tax on receipts from cellular phone calls to be borne by cellular phone companies that will be used in the creation of a special computer literacy education fund for public schools. HB Nos. 1030 and 1279 propose to require cellular phone companies to set up local assembly and packaging plants for the manufacture of cellular phone units to give the government, by way of appropriate tax schemes, a share in the profits derived from the business. For more details on relevant proposed regulations affecting our business, see Item 4. Information on the Company Licenses and Regulations Material Effects of Regulation on our Business . 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, Section4 (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 Executive Order, or 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

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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. Examples of recent regulatory action affecting our business are provided below.

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 alleging among others that interconnection, including the rates thereof, should be by law a product of bilateral negotiations between the parties and the Decision is unconstitutional as it is an invalid exercise by the NTC of its quasi-legislative powers and violates the constitutional guarantee against non-impairment of contracts.

A summary of the existing material regulations on our business is set forth in Item 4. Information on the Company 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, 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. For a detailed description of the divestment of CURE, see Item 4. Information on the Company Development Activities (2010-2012) Divestment of CURE.

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, and 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. 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 audited consolidated financial statements in Item 18 for further discussion.

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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 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 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 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 part of our growth strategy and as growth slows or reverses in our traditional fixed line and cellular businesses, 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. These acquisitions and investments are further discussed in Item 4. Information on the Company Development Activities (2010-2012) . 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.

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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.

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We are exposed to cybersecurity 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 cybersecurity 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 cybersecurity 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 Php36,396 million and Php31,207 million in 2012 and 2011, respectively. Our 2013 budget for consolidated capital expenditures is approximately Php29 billion, of which approximately Php13 billion is budgeted to be spent by Smart, approximately Php12 billion is budgeted to be spent by PLDT, approximately Php3 billion is budgeted to be spent by Digitel, and the balance represents the budgeted capital spending of our other subsidiaries. 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. 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. Digitel 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, particularly 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, service our other debt and carry out new financings.

As at December 31, 2012, we had consolidated total indebtedness of Php115,792 million, or US$2,819 million, and a consolidated ratio of debt to equity of 0.8 times, 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 on a consolidated and non-consolidated basis, and limit our ability to incur indebtedness. For a description of some of these covenants, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financing Activities Debt Covenants.

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 45% of our total consolidated debts were denominated in foreign currencies as at December 31, 2012, principally in U.S. dollars, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the Philippine peso.

We have maintained compliance with all of our financial ratios and covenants, as measured under PFRS, under our loan agreements and other debt instruments. However, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants or unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing 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 December 31, 2012, approximately 45% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 38% of our total consolidated indebtedness was 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.

On the other hand, 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. 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. However, we cannot assure you that the Philippine peso will not depreciate and be subject to significant fluctuations going forward, due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;

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global economic and financial trends;

the volatility of regional currencies, particularly the Japanese yen;

any interest rate increases by the Federal Reserve Bank of the United States; and

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 February 28, 2013, taking into account shares purchased from JG Summit Holdings, or JGSHI, pursuant to an option agreement in connection with the Digitel acquisition. See Item 4. Information on the Company Historical Background and Development. 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 February 28, 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. See Item 4. Information on the Company Historical Background and Development for further discussion. 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 Item 7. Major Shareholders and Related Party Transactions 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

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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.

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.

For example, in 2012, the then Chief Justice of the Supreme Court of the Philippines was impeached and the proceedings have raised concerns about the judicial system in the country.

The Philippine economy continues to face several long-term challenges, including reliance on energy imports and foreign demand for overseas Filipino workers.

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, 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.

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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. 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 Item 8. Financial Information Legal Proceedings Matters Relating to Gamboa Case and Item 10. Additional Information Approval and Issuance of Voting Preferred Shares 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.

Item 4. Information on the Company

Overview

We are the leading telecommunications service provider in the Philippines. Through our three principal business segments, wireless, fixed line and BPO, 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 68% of the total reported fixed line subscribers nationwide as at December 31, 2012. Smart is the leading cellular service provider in the country, and together with the other PLDT Group cellular service provider, DMPI, account for approximately 68% of total reported cellular subscribers nationwide as at December 31, 2012. We have interests in the BPO sector, including the operation of our customer relationship management and knowledge processing solutions business.

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 Php546,621 million, or US$13,306 million, as at December 31, 2012, representing one of the largest market capitalizations among Philippine-listed companies. We had total revenues, including revenues from discontinued operations, of Php172,626 million, or US$4,202 million, and net income attributable to equity holders of PLDT of Php35,454 million, or US$863 million 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.

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Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928 as Philippine Long Distance Telephone Company, 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, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications investment in PLDT, the latter acquired 100% of Smart. On March 14, 2006, NTT DOCOMO acquired from NTT Communications approximately 7% of PLDT s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. Since March 14, 2006, NTT DOCOMO has made additional purchases of shares of PLDT, and together with NTT Communications beneficially owned approximately 20% of PLDT s outstanding common stock as at December 31, 2012. NTT Communications and NTT DOCOMO are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in 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 the First Pacific Group and its Philippine affiliates beneficial ownership to approximately 28% of PLDT s outstanding common stock as at that date. Since then, First Pacific Group and its Philippine affiliates beneficial ownership 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. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

PLDT s original franchise was granted in 1928 and was last amended in 1991, extending its effectiveness until 2028 and broadening PLDT s franchise permitting PLDT to provide virtually every type of telecommunications service. PLDT s franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, cellular, wired or wireless telecommunications system, fiber optics, multi-channel transmission distribution systems and their VAS such as but not limited to transmission of voice, data, facsimile, control signals, audio and video, information services bureau and all other telecommunications systems technologies, as are at present available or can be made available through technical advances or innovations in the future. Our subsidiaries, including Smart and DMPI, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses.

On October 26, 2011, PLDT completed the acquisition of a controlling interest in Digitel from JGSHI and certain other seller-parties. As payment for the assets acquired from JGSHI, PLDT issued approximately 27.7 million common shares. In November 2011, JGSHI sold 5.81 million and 4.56 million PLDT shares to a Philippine affiliate of First Pacific and NTT DOCOMO, respectively, pursuant to separate option agreements that JGSHI had entered into with a Philippine affiliate of First Pacific and NTT DOCOMO, respectively. According to public filings, as at February 28, 2013, the JG Summit Group, First Pacific Group and its Philippine affiliates and NTT Group (NTT DOCOMO and NTT Communications) owned approximately 8%, 26% and 20% of PLDT s outstanding common shares, respectively. See *Note 13 Business Combinations and Acquisition of Noncontrolling Interests PLDT s Acquisition of Digitel* to the accompanying audited consolidated financial statements in Item 18 for further information.

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 for 150 million newly issued shares of Voting Preferred Stock of PLDT, or Voting Preferred Shares, at a subscription price of Php1.00 per share for a total subscription price of Php150 million pursuant to a subscription agreement dated October 15, 2012 between BTFHI and PLDT. As a result of the issuance of Voting Preferred Shares, the voting power of the NTT Group (NTT DOCOMO and NTT Communications), First Pacific Group and its Philippine affiliates, and JG Summit Group was reduced to 12%, 15% and 5%, respectively, as at December 31, 2012.

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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 annual report.

Recent Developments

Investment in PDRs of MediaQuest

Between June and August of 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 Mediascape, Inc., or Mediascape. Mediascape is a wholly-owned subsidiary of Satventures, Inc., or Satventures, which is a wholly-owned subsidiary of MediaQuest. The Mediascape PDRs confer an economic interest in common shares of Mediascape indirectly owned by MediaQuest, and when issued, will provide ePLDT with a 40% economic interest in Mediascape. Mediascape operates a direct-to-home, or DTH, Pay-TV business under the brand name CignalTV , which is the largest DTHPay-TV operator in the Philippines with over 440 thousand subscribers as at December 31,2012. As at March 25, 2013, the Mediascape PDRs have not been issued.

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 Philippine Star, the Philippine Daily Inquirer, and BusinessWorld, three of the leading newspapers in terms of circulation in the Philippines.

On March 14, 2013, ePLDT made a deposit of Php750 million for its investment in Satventures and Hastings PDRs of MediaQuest. As at March 25, 2013, the Satventures PDRs and Hastings PDRs have not been issued.

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

See *Note 10 Investments in Associates and Joint Ventures and Deposit Deposit for Future PDRs Subscription* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Discontinued Operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had approved the plan to sell the BPO segment and we had entered into preliminary negotiations with a potential buyer, and should the negotiation with the 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.

Subsequently, 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 is expected to be completed in April 2013, after satisfaction of agreed closing conditions, including competition law clearance in applicable jurisdictions, third party consents, availability of buyer s debt financing, transfer of certain parcels of land in the Philippines and completion

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of transfer of SPi America Holdings, Inc. to buyer (as a separate transaction). PLDT will own approximately 20% interest in AOGL by reinvesting some of the proceeds from the sale and 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 such business is carried on (excluding, among others, activities in the ordinary course of PLDT s business); and (2) an obligation, for a period ranging from six months up to five years, to provide certain transition 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 the buyer arising out of, among others, breach of representation and tax matters. 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 audited consolidated financial statements in Item 18 for a further discussion of the classification of the BPO segment as an asset held-for-sale.

Business Overview

As at and for the year ended December 31, 2012, our chief operating decision maker, or our Management Committee, views our business activities in four business units: Wireless, Fixed Line, BPO and Others. See Item 4. Information on the Company Development Activities (2010-2012) Business Reorganization for further information on our development activities. The BPO business unit was classified as disposal group held-for-sale and discontinued operation. See Item 4. Information on the Company Recent Developments Discontinued Operations for further discussion.

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 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. Our total wireless revenues was 62% of our total revenues in 2012 and 60% for each of the years 2011 and 2010. Our cellular service revenues was 90% of our total wireless revenues, which include service and non-service revenues, in each of 2012 and 2011, and 91% in 2010.

Our cellular service, which accounted for about 91% of our wireless service revenues for the year ended December 31, 2012, is provided through Smart and DMPI with 69,866,458 total subscribers as at December 31, 2012 representing a combined market share of approximately 68%. In 2012, the combined number of subscribers of Smart, *Red Mobile* and *Sun Cellular* subscribers increased by 6,169,829, or 10%, to 69,866,458. 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 105% as at December 31, 2012, or approximately 34 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 97%, 90% and 100% of Smart s, *Sun Cellular* and *Red Mobile* subscribers, respectively, as at December 31, 2012 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 our 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 stable year-on-year at Php53,274 million in 2012 increasing from Php47,235 million in 2011, including an increase resulting from the inclusion of DMPI s cellular data revenues by Php6,014 million 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 W-CDMA technology and are currently upgrading our wireless broadband facilities. With 11,577 cellular/mobile broadband base stations as at December 31, 2012, 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 58 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 cellsites 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. We had 2,063,794 fixed line subscribers as at December 31, 2012, a decrease of 102,501 from the 2,166,295 fixed line subscribers as at December 31, 2011 mainly due to lower net additions in 2012 compared with 2011. Total revenues from our fixed line was 33% of our total revenues for the year ended December 31, 2012 and 35% for each of the years ended December 31, 2011 and 2010. 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.

See Infrastructure Fixed Line Network Infrastructure for further information on our fixed line infrastructure.

Business Process Outsourcing

We provide knowledge processing solutions through SPi, and its subsidiaries, or SPi Group and customer relationship management through SPi CRM. The BPO segment was 6% of our revenues in 2012 and 5% in each of the years 2011 and 2010.

Others

Others 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.

Capital Expenditures and Divestitures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for information concerning our principal capital expenditures for the years ended December 31, 2010, 2011 and 2012 and those planned for 2013. See Item 4. Information on the Company Recent Developments Discontinued Operations and Development Activities (2010 to 2012) Divestment of CURE for the discussion of our recent divestitures.

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Organization

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the PLDT Group) as at December 31, 2012 and 2011:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership 2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	100.0		100.0	
SBI and Subsidiary	Philippines	Internet broadband distribution services		100.0		100.0
PDSI	Philippines	Internet broadband distribution services		100.0		100.0
I-Contacts	Philippines	Call center services		100.0		100.0
Wolfpac	Philippines	Mobile applications development and services		100.0		100.0
WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		100.0		100.0
SHI	Philippines	Software development and sale of maintenance and support services		100.0		100.0
SMHC:	Cayman Islands	Investment company		100.0		100.0
SMI	Cayman Islands	Mobile commerce solutions marketing		100.0		100.0
FECL and Subsidiary or FECL Group	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		100.0		100.0
PHC	Philippines	Investment company		100.0		100.0
FHI:	Philippines	Investment company		100.0		100.0
CURE	Philippines	Cellular mobile services		100.0		100.0
Chikka and Subsidiaries or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider		100.0		100.0
SHPL:	Singapore	Investment company		100.0		100.0
SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications		100.0		100.0
3rd Brand	Singapore	Solutions and systems integration services		85.0		85.0
Telesat[(a)]	Philippines	Satellite communications services	100.0		100.0	
ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5	85.0	11.5
MIC[(b)]	Philippines	Investment company	67.0		67.0	
DMPI	Philippines	Cellular mobile services		99.5		70.2
Fixed Line						
ClarkTel	Philippines	Telecommunications services	100.0		100.0	
SubicTel	Philippines	Telecommunications services	100.0		100.0	
PLDT Global and Subsidiaries or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0		100.0	
SNMI[(a)]	Philippines	Data and network services	100.0		100.0	
Philcom and Subsidiaries or Philcom Group	Philippines	Telecommunications services	100.0		100.0	
ePLDT[(c)] :	Philippines	Information and communications infrastructure for internet-based	100.0		100.0	

		services, e-commerce, customer relationship management and information technology, or IT, related services				
IPCDSI[d]	Philippines	Information and communications infrastructure for internet-based services, e-commerce, customer relationship management and IT related services		100.0		
AGS and Subsidiaries or AGS Group[e]	Philippines	Internet-based purchasing, IT consulting and professional services		97.1		93.5
ePDS	Philippines	Bills printing and other related value-added services, or VAS		67.0		67.0
netGames[f]	Philippines	Gaming support services		57.5		57.5
Digitel	Philippines	Telecommunications services	99.5		70.2	
DCPL[g]	British Virgin Islands	Telecommunications services		99.5		70.2
DITSI[h]	Philippines	Internet services		99.5		70.2
Maratel	Philippines	Telecommunications services	97.8		97.8	
BCC	Philippines	Telecommunications, infrastructure and related VAS	75.0		75.0	
PGNL and Subsidiaries	British Virgin Islands	International distributor of Filipino channels and content	60.0		60.0	
BPO[i]						
SPi Global:	Philippines	Investment company	100.0		100.0	
SPi and Subsidiaries or SPi Group	Philippines	Knowledge processing solutions		100.0		100.0
SPi CRM	Philippines	Customer relationship management		100.0		100.0
SGIL and Subsidiaries or SGIL Group[j]	British Virgin Islands	General administration, planning and corporate services to its affiliates, subsidiaries and branches		100.0		
Infocom	Philippines	Customer relationship management		99.6		99.6
Others						
PCEV	Philippines	Investment company		99.8		99.5

(a) *Ceased commercial operations.*

(b) *Ceased commercial operations; however, on January 13, 2012, the Philippine SEC approved the amendment of MIC s Articles of Incorporation changing its name from Mabuhay Satellite Corporation to Mabuhay Investments Corporation and its primary purpose from satellite communication to holding company.*

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

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

(e) *In December 2012, ePLDT acquired an additional 3.6% equity interest in AGS from its minority shareholders for a consideration of Php3 million, thereby increasing ePLDT s ownership in AGS from 93.5% to 97.1%.*

(f) *Ceased commercial operations in January 2013.*

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(g) *Liquidated in January 2013.*
(h) *Approved for liquidation in June 2013.*
(i) *On December 4, 2012, our Board of Directors authorized the sale of our BPO segment, thus, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. See Discontinued Operations and Note 3 Management s Use of Accounting Judgments, Estimates and Assumptions Discontinued Operations.*
(j) *On March 8, 2012, SGIL was incorporated in British Virgin Islands to provide regional support services to SPi Global and Subsidiaries. On July 25, 2012, SGIL through its subsidiary, SPi Global Shared Services Pte. Ltd. was registered with the Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.*

Development Activities (2010-2012)

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 in Item 18.

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 in Item 18 for further discussion.

SPi s Sale of Medical Transcription Business of SPi and SPi America Holdings

On September 26, 2011, SPi and SPi America Holdings, a wholly-owned subsidiary of SPi, signed an Asset Purchase Agreement, or APA, with Acusis, LLC, a global provider of outsourced clinical documentation solutions based in Pittsburg, Pennsylvania, USA, for the sale of all assets and rights of every type and description which are related to or are used in the medical transcription business for a total consideration of US$2.8 million, or Php121 million, subject to the terms and conditions provided in the APA. The sale generated a net gain of US$2 million, or Php89 million.

The sale of investments in Digital Paradise, Level Up! and Medical transcription business of SPi and SPi America Holdings do not qualify as discontinued operations as these businesses do not represent a disposal of major line of business of PLDT Group.

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SPi s Acquisition of Laserwords

On November 1, 2011, SPi acquired through SPi Technologies India Private Ltd., a wholly-owned subsidiary of SPi, a 100% equity interest in Laserwords for a total cash consideration of US$23 million, or Php1,030 million. Laserwords is one of the oldest and most successful outsourcing partners for global media and publishing companies, with production facilities spread over Chennai-India, Lewiston-Maine, Madison-Wisconsin, and a separate facility offering publishing services in New York City.

On March 8, 2012, SGIL was incorporated in British Virgin Islands to provide regional support services to SPi Global and Subsidiaries. On July 25, 2012, SGIL, through its subsidiary, SPi Global Shared Services Pte. Ltd., was registered with the Philippine SEC as a multinational company to establish its regional operating headquarters in the Philippines.

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. See Transfer of Meralco Shares to Beacon section below for further information.

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

Transfer of Meralco Shares to Beacon

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

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

The carrying value of PCEV s investment in Beacon, representing 50% of Beacon s common shares outstanding, was Php20,801 million and Php16,593 million as at December 31, 2012 and 2011, respectively.

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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 Beacon preferred shares to MPIC for a total cash consideration of Php3,563 million. Because the sale of Beacon preferred shares was deemed as a transaction between non-related entities, 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 in Item 18 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.

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

In a letter dated September 10, 2012, Smart informed the NTC that the minimum CRA to enable the PLDT Group to recover its investment in CURE, includes, among others, the total cost of equity investments in CURE, advances from Smart for operating requirements, advances from stockholders and associated funding costs. Smart also informed the NTC that the divestment will be undertaken through an auction sale of CURE s shares of stock to the winning bidder and submitted CURE s audited financial statements as at June 30, 2012 to the NTC.

The divestment of CURE-related franchise and licenses qualifies as noncurrent assets held-for-sale as at December 31, 2012 but was not presented separately in our consolidated statement of financial position as the carrying amounts are not material.

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 audited consolidated financial statements in Item 18 for further discussion.

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.

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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	Php 12,060,000,000	12,060,000,000	Php 1	Php 12,060,006,000	574,286	Php 21,000
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	Php 12,800,000,000			Php 12,176,667,000		

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

Consequently, from October 8, 2012, 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 130 as at December 31, 2012 and under the rules of the Philippine SEC, PCEV is still required to make update filings with the Philippine SEC. Smart s percentage ownership in PCEV stood at 99.8% as at December 31, 2012.

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 Php734 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%.

See *Note 2 Summary of Significant Accounting Policies*, *Note 13 Business Combinations and Acquisition of Noncontrolling Interests* and *Note 14 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion regarding these and other acquisitions.

Strengths

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

Recognized Brands. PLDT, Smart, *Talk N Text* and *Sun Cellular* are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for nearly 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 over 75 million fixed line, cellular and broadband subscribers as at 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 four business segments, namely, wireless, fixed line, BPO and other businesses, with wireless contributing 62%, fixed line 33% and BPO 5% to our total revenues in 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.

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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 six consecutive years from 2007 to 2012. 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

Wireless

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

Cellular Service

Overview

Our cellular business, which we provide through Smart and DMPI to almost 70 million subscribers as at December 31, 2012, 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 Item 4. Information on the Company Development Activities (2010 to 2012) Divestment of CURE for further discussion.

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The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2012, 2011 and 2010:

	2012[1]	2011[2]	2010
Systemwide cellular subscriber base	69,866,458	63,696,629	45,636,008
Prepaid	67,611,537	61,792,792	45,214,433
Smart Prepaid	*24,827,418*	*26,573,137*	*25,293,443*
Talk N Text	*28,445,053*	*20,467,175*	*18,967,381*
Sun Cellular	*14,105,031*	*13,314,096*	
Red Mobile[3]	*234,035*	*1,438,384*	*953,609*
Postpaid	2,254,921	1,903,837	421,575
Smart	683,428	*550,485*	*421,575*
Sun Cellular	*1,571,441*	*1,353,089*	
Red Mobile[4]	*52*	*263*	
Growth rate of cellular subscribers			
Prepaid			
Smart Prepaid	*(7%)*	*5%*	*6%*
Talk N Text	*39%*	*8%*	*11%*
Sun Cellular	*6%*	*100%*	
Red Mobile	*(84%)*	*51%*	*1,098%*
Postpaid			
Smart	*24%*	*31%*	*(3%)*
Sun Cellular	*16%*	*100%*	
Red Mobile[3]	*(80%)*	*100%*	
Cellular revenues (in millions)	Php 107,359	Php 93,645	Php 95,520
Voice	51,492	43,885	45,678
Data	53,274	47,235	47,236
Others[4]	2,593	2,525	2,606
Percentage of cellular revenues to total wireless service revenues	*91%*	*92%*	*92%*
Percentage of cellular revenues to total service revenues	*57%*	*55%*	*56%*

(1) *Includes DMPI s cellular service revenues of Php19,106 million for the full year 2012.*
(2) *Includes DMPI s cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*
(3) *Red Mobile postpaid was launched in March 2011 by CURE.*
(4) *Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fee, share in revenues from PLDT s WeRoam and PLP services, a small number of leased line contracts, and revenues from Chikka, Wolfpac and other Smart subsidiaries.*

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. Recently, Smart introduced its new postpaid consumable plan, *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, *Talk N Text* and *Sun Cellular* subscribers, plus free 20 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* which is available in two variants: Unli postpaid 299 which offers unlimited text to any subscriber on the Smart network and Unli postpaid 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.

During 2012, *Sun Cellular* also introduced *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. During 2012, *Sun Cellular* launched *Sundroid Rush Plans* starting from Php600 per month that comes with a free Android handset and tablet where subscribers can enjoy unlimited *Sun Calls and Texts,* 350 free texts to other networks and Php250 consumable that can be used for mobile internet and calls to other networks. *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 Php51,492 million, Php43,885 million and Php45,678 million, or 48%, 47% and 48% of cellular service revenues in 2012, 2011 and 2010, respectively. Local calls continue to dominate outbound traffic constituting 90% of all our cellular minutes. Domestic inbound and outbound calls totaled 50,039 million minutes in 2012, an increase of 8,932 million minutes, or 22%, as compared with 41,107 million minutes in 2011, due to the inclusion of DMPI s domestic voice traffic for 2012. International inbound and outbound calls totaled 3,433 million minutes in 2012, an increase of 348 million minutes, or 11%, as compared with 3,085 million minutes in 2011, mainly due to the inclusion of DMPI s international call traffic in 2012. The ratio of inbound-to-outbound international long distance minutes was 7.6:1 for 2012.

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.

Due to the inclusion of DMPI s full year revenues in 2012, our cellular revenues from this service increased by Php4,651 million, or 11%, to Php48,359 million in 2012 from Php43,708 million in 2011, wherein Digitel s results included were only from October 26, 2011 to December 31, 2011. The resulting increase in DMPI s text messaging revenue contribution of Php5,386 million was partly offset by lower text messaging revenues from Smart mainly due to NTC-mandated decrease in SMS interconnection charges. In 2012, Smart s and DMPI s text messaging system handled 43,920 million outbound messages on standard SMS services and 464,711 million messages generated by bucket-priced text services.

In 2012 and 2011, approximately 50% of our cellular revenues were derived from data usage mainly due to VAS revenues and the inclusion of DMPI s full year revenues in 2012, partially offset by lower text messaging revenues from Smart.

Smart and DMPI offer the following VAS:

internet-based includes revenues from web-based services such as mobile internet browsing and video streaming, net of allocated discounts and content provider costs;

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

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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.

Wolfpac

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services. On April 30, 2012, Wolfpac transferred all of its clients under various agreements, access codes with all the rights, interests and obligations, customer receivables, and property and equipment to Chikka.

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.

In 2012, *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*

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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 500 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 is permitted to adjust its cellular air time and national direct dial rates according to changes in the Philippine peso-to-U.S. dollar exchange rate. Under the authorization granted to Smart by the NTC, Smart is permitted to increase and is required to decrease its air time and national direct dial rates by 1% for every Php0.25 change in the exchange rate relative to a base rate of Php24.73 to US$1.00. However, Smart has not implemented any foreign currency adjustments to its rates since November 4, 1998 because of the concern that increased rates may result in decreased usage or switching to other cellular providers by its subscribers.

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 28 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.

Wolfpac, through Chikka, generates revenues from SMS subscriptions, institutional services and downloadable contents. The subscription price for the SMS subscription and institutional services is pegged at Php2.50 per SMS, while for downloadable content, the subscription price ranges from Php5.00 to Php50.00.

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 94 all exclusive regional distributors, 82 key account dealers, 60 of which are exclusive, including DMPI s 74 exclusive regional distributors and 46 exclusive key account dealers. 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 1.4 million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs and individual roving agents). 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 14%, respectively for Smart, and 10% and 14%, 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.*

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; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator.

SBI

Through SBI with its *SmartBro* brand, 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 December 31, 2012, we had 1,726,894 subscribers, an increase of 110,541 subscribers, or 7%, as compared with 1,616,353 subscribers as at December 31, 2011. *SmartBro* 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 promotions for *Sun Broadband Wireless* subscriptions such as the *Sun Broadband Android Bundles* which are available under plan bundles *799* and *1,249*, mobile wifi promotions for the transport industries and the *SBW Gadget Bundle* available under *Plans 799* and *999*, which comes with a free tablet and pocket wifi. As at December 31, 2012, DMPI had 356,068 and 276,062 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 audited consolidated financial statements in Item 18 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.

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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

SmarBro, 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 30-minute internet access for every Php10 worth of load. SBI also offers unlimited internet surfing with *Unli Surf200, Unli Surf100* and *Unli Surf50* for *SmartBro Plug-It 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, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* unlimited broadband usage is available under Plan 799 and Plan 999 with burst speeds of up to 512 kbps and up to 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 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.

Fixed Line

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

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

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 13% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange services as at and for the years ended December 31, 2012, 2011 and 2010:

	2012[1]	2011[2]	2010
Number of local exchange line subscribers	2,063,794	2,166,295	1,822,105
Number of fixed line employees	7,546	9,072	7,395
Number of local exchange line subscribers per employee	273	239	246
Total local exchange service revenues (in millions)	Php 16,483	Php 15,734	Php 15,855
Local exchange service revenues as a percentage of total fixed line service revenues	27%	27%	27%
Local exchange service revenues as a percentage of total service revenues	9%	9%	9%

(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) *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 Php749 million, or 5%, to Php16,483 million in 2012 from Php15,734 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 27% in each of 2012, 2011 and 2010.

Rates

Basic monthly charges for our local exchange service in the Metropolitan Manila area were Php592.63 for a single-party residential line and Php1,234.02 for a single business line as at December 31, 2012. 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.

For the *PLP* postpaid regular service, there are two plans being offered: (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. 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 150 local outgoing minutes; and (ii) 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 denominations, respectively.

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 2012, 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.

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 for the years ended December 31, 2012, 2011 and 2010:

	2012(1)	**2011**(2)	**2010**
Total call volumes (in million minutes)	2,150	2,029	1,863
Inbound call volumes (in million minutes)	1,691	1,767	1,653
Outbound call volumes (in million minutes)	459	262	210
Inbound-outbound call ratio	3.7:1	6.7:1	7.9:1
Total international long distance service revenues (in millions)	Php 10,885	Php 11,383	Php 11,275
International long distance service revenues as a percentage of total fixed line service revenues	18%	19%	19%
International long distance service revenues as a percentage of total service revenues	6%	7%	7%

(1) *Includes Digitel s international long distance service revenue contribution of Php688 million and call volumes of 348 million minutes for the full year 2012.*

(2) *Includes Digitel s international long distance service revenue contribution of Php239 million and call volumes of 58 million minutes for the period from October 26, 2011 to December 31, 2011.*

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 years ended December 31, 2012, 2011 and 2010:

		Net Settlement	
	2012	**2011**	**2010**
		(in millions)	

Saudi Arabia	US$ 49	US$ 71	US$ 32
United Arab Emirates	27	18	14
United States	19	22	31
Japan	11	11	11
Taiwan	9	12	6
Hongkong	8	8	10
Canada	7	3	3
Malaysia	7	2	4
Qatar	5	7	11
Others	19	23	19
Total	US$ 161	US$ 177	US$ 141

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Rates

The average termination rate for PLDT was approximately US$0.10 per minute in 2010, US$0.095 per minute in 2011 and approximately US$0.09 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 more than 100 calling destinations (excluding the Middle East). *Budget Card Middle East Edition* offers reduced IDD call rates of Php10 per minute and Php15 per minute to 14 different destinations in the Middle East. *Budget Card* and *Budget Card Middle East Edition* are sold in denominations of Php200, Php100 and Php30 and must be consumed within 30 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.

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 for the years ended December 31, 2012, 2011 and 2010:

	2012(1)	**2011(2)**	**2010**
Total call volumes (in million minutes)	971	1,126	1,290
Total national long distance service revenues (in millions)	Php 5,272	Php 5,711	Php 6,641
National long distance service revenue as a percentage of total fixed line service revenues	9%	10%	11%
National long distance service revenue as a percentage of total service revenues	3%	3%	4%

(1) *Includes Digitel s national long distance service revenue contribution of Php346 million and call volume of 39 million minutes for the full year 2012.*

(2) *Includes Digitel s national long distance service revenue contribution of Php68 million and call volume of 10 million minutes for the period from October 26, 2011 to December 31, 2011.*

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, partially offset by the increase in Digitel s national long distance service revenue contribution for the year ended December 31, 2012 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.

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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 above new rate plans.

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

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 years ended December 31, 2012, 2011 and 2010:

	2012[(1)]	**2011**[(2)]	**2010**
Subscriber base:			
Broadband	*903,860*	*859,960*	*665,027*
DSL	887,399	842,273	643,048
WeRoam	16,461	17,687	21,979
SWUP	*22,720*	*20,153*	*15,641*
Total data and other network service revenues (in millions)	Php 25,735	Php 23,155	Php 21,955
Domestic	18,682	16,647	15,647
Broadband	*11,640*	*9,940*	*8,511*
DSL	11,405	9,664	8,263
WeRoam	235	276	248
Leased Lines and Others	*7,042*	*6,707*	*7,136*
International			
Leased Lines and Others	*5,679*	*5,358*	*5,410*
Vitro™ Data Center	1,374	1,150	898
Data and other network service revenues as a percentage of total fixed line service revenues	42%	39%	37%
Data and other network service revenues as a percentage of total service revenues	14%	14%	13%

(1) *Includes Digitel s data and other network service revenue contribution of Php1,242 million for the full year 2012 and DSL subscribers of 74,921 as at December 31, 2012.*

(2) *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 99,367 as at December 31, 2011.*

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 from 2010 to 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 2012, 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: (i) *PLDTDSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, or SMEs, and large corporate subscribers with multiple branches; and (ii) *PLDT WeRoam*, our broadband service, running on the PLDT Group s nationwide wireless network, using GPRS, EDGE, 3G/HSDPA/HSPA/HSPA+ and WiFi technologies.

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.

PLDT *WeRoam* mobile broadband offers enterprise-grade postpaid packages that include unlimited internet or VPN access with maximum speeds of up to 3.6 Mbps via HSPA technology. *WeRoam s* premium hardware bundles are constantly refreshed to provide the latest ICT devices, and VAS such as cloud-based web security and premium static IP addressing are also available to enterprise customers.

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, such as AT&T, BT, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, 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

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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.

Miscellaneous

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

Business Process Outsourcing

We conduct our BPO business through the operation of our knowledge processing solutions and customer relationship management. Revenues from our BPO business are mainly denominated in U.S. dollars and as such are impacted by the strength of the Philippine peso. Our BPO business generated revenues of Php9,142 million, Php8,124 million and Php7,573 million for the years ended December 31, 2012, 2011 and 2010, respectively, accounting for 6% in 2012 and 5% in each of 2011 and 2010 of our total revenues. The growth in the revenue contribution from our BPO business was primarily due to the continued growth of our knowledge processing solutions business service revenues.

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 AOGL, a company controlled by CVC. The sale of the BPO business is expected to be completed in April 2013, after satisfaction of agreed closing conditions. PLDT will reinvest some of the proceeds from the sale into AOGL and continue to participate in the growth of the business as a partner of CVC with an economic interest of approximately 20%. See Item 4. Information on the Company Recent Developments Discontinued Operations , *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 audited consolidated financial statements in Item 18 for further discussion.

Knowledge Processing Solutions

We provide knowledge processing solutions through the SPi Group. Our knowledge processing solutions business provides services such as: (i) editorial and content production services to the scholarly scientific, technical and medical journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) conversion services of medical records/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and (v) revenue cycle management, transcription and coding compliance services for U.S. medical facilities.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. SPi CRM provides offshore, cost-effective contact center outsourcing solutions specializing in inbound customer care; customer and technical support to its clients in the Philippines, U.S. and U.K.; and exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In 2012, we owned and operated 6,200 seats with an average of 3,709 CSRs compared to 5,959 seats with an average of 3,360 CSRs in 2011. As at December 31, 2012 and 2011, SPi CRM had six customer relationship management sites.

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Infrastructure

Wireless Network Infrastructure

Cellular

Through Smart and DMPI, we operate a digital GSM network. To meet the growing demand for cellular services, Smart and DMPI have implemented an extensive deployment program for its GSM network covering substantially all of Metropolitan Manila and most of the other population centers in the Philippines. As at December 31, 2012, Smart and DMPI have 78 mobile switching centers, 80 text messaging service centers and 18,337 cellular/mobile broadband base stations in operation after consolidating Smart s 250 base stations to its nationwide cellular network.

Smart has an operating spectrum of 7.5 MHz in the 900 band and 20 MHz in the 1800 band for its GSM network; 15 MHz in the 2100 band and 10 MHz in the 850 band assigned for 3G and W-CDMA. Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. CURE was assigned 10 MHz of 3G frequency bandwidth in the 1955-1965 to 1955-2155 MHz spectrum, which is the subject of the divestment plan as presented by PLDT to the NTC in relation to PLDT s acquisition of Digitel. DMPI has a total operating spectrum of 17.5 MHz in the 1800 band and 10 MHz band in the 2100 band, with the latter under the 1935-1945 MHz and 2125-2135 MHz spectrum, contiguous to Smart s 15 MHz spectrum. See Item 4. Information on the Company Development Activities (2010-2012) Divestment of CURE for further discussion.

Smart has been co-locating its cell sites where its base stations are installed. In addition, 6 of Smart s mobile switching centers were housed in PLDT s fixed line complexes as at December 31, 2012. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks. Due to its access to PLDT s network facilities, Smart has been able to achieve significant capital expenditure savings, which capital expenditures are understood to be significantly less, on a per net addition basis, than its current competitors. This translates into an improved ability to price competitively and target the mass market subscriber base in the Philippines, while retaining profitability.

Smart has been continuously extending its 3G footprint and since it commenced with 71% population coverage and expects to cover more by the end of 2013 as part of the 3G rollout and expansion program. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Smart has also been deploying its HSPA+ network in urban areas where there is a demand for mobile broadband applications and where HSPA+ mobile units are more likely to be available.

Smart launched its fourth generation (4G) LTE network in August 2012. To date, Smart has fired up its LTE network in strategic locations in the Philippines. Forthcoming are deployments in select high traffic areas in the nation s capital and strategic locations to benefit more members of the Philippine population.

The PLDT Group completed a two-year network transformation program covering fixed line, cellular and 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 subscribers. The program with total cost of Php67 billion, also included convergent IT transformation that enhanced business analytics, customer relations management and operations support systems.

With the acquisition of Digitel, there is added opportunity to further strengthen the PLDT Group network by harmonizing the ongoing modernization program with *Sun Cellular s* network that should generate significant potential synergies on capital expenditure optimization and cost efficiencies from co-location of base stations, consolidation of overlapping technical systems, reduction in cost duplications, bulk purchasing of network equipment, platforms, systems, devices and other materials in a shared service environment.

Wireless Broadband, Satellite and Other Services

SBI operates a nationwide broadband wireless internet data services. It is operating in the 2.4, 2.5, 3.5 and 5.7 GHz spectrum, supporting its WiFi, Canopy and WiMax services, respectively. It offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates WiFi hotspots installations that serve mobile internet users. Smart also upgraded its 3G network to HSDPA to provide users with high download data rates and an improved broadband experience. More than 2,500 of Smart s base stations are now wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically co-located in Smart s cellular base stations that allow it to efficiently reach many subscribers. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.

ACeS Philippines manages, controls and operates its own satellite gateway and other ground infrastructure, including a 13-meter feeder-link C-band earth station, beam congruency antenna and equipment that serve as the primary interface between the ACeS System and other telecommunications networks. It uses the Garuda I satellite to transmit digital voice services to ACeS System, mobile and fixed terminal users within the Asian service area.

Fixed Line Network Infrastructure

Domestic

Our domestic telephone network includes installed telephones and other equipment on customers premises, local access lines connecting customers to exchanges, referred to as outside plant, inter-office lines connecting exchanges, and long distance transmission equipment. We have a total of 481 central office exchanges nationwide as at December 31, 2012 and are continuously expanding the wireline infrastructure in unserved and underserved areas using new technology.

We are continuing the upgrade of our fixed line facilities to the NGN, an IP-based platform that can deliver voice and data services using the same network. NGN enables us to replace the ageing Public Switched Telephone Network, or PSTN, transfer existing customers to this newer platform, and acquire new customers for voice and data services. We expect to complete the upgrading of our fixed line facilities to NGN in 2015, providing subscribers with a diversified range of telecommunication services using IP technology.

This year, complementing our core and transport NGN infrastructure, we continued the roll-out of a more advanced access technology called FTTH. FTTH employs fiber optics all the way up to customer premises. To realize this, we are building a fiber distribution network to connect homes and other premises. This new optical fiber distribution network will eventually replace conventional copper cable. At present, FTTH is potentially capable of delivering up to 2.5 Gigabits per second, or Gbps, bandwidth to customers. This huge bandwidth, when tapped, could enable the Company to additionally deliver highbandwidth content to homes, including high definition broadcast television channels, video-on-demand, and other new services now being offered by leading telcos abroad. We began deploying FTTH in high-end and selected upper middle villages in Metropolitan Manila.

We are also continuously upgrading our data and transport networks to an IP-based platform. This enables us also to retire our old data network and provide new capabilities to our corporate data customers. We also expect to complete this project in 2015.

We also have an internet gateway that provides premium and differentiated services with high-speed, reliable and managed connectivity to the internet. The gateway is composed of high capacity and high performance routers that serve as our IP network gateway to the rest of the world. It provides premium and differentiated internet service to all types of customers ranging from ordinary broadband to high bandwidth internet requirements of corporate customers, knowledge processing solution providers, internet service providers and other service providers.

Furthermore, we have several networks that provide domestic and international connectivity for corporate customers and other carriers. These include the Multi-Service Access Platform, or MSAP, based on Synchronous Digital Hierarchy, or SDH, technology and legacy data networks that provide wide range of bandwidth from low speed to high speed capacity in Gigabits per seconds. These MSAP networks are deployed in strategic areas nationwide. In 2012, we completed Phase 2 deployment of Carrier Ethernet Network to serve the growing demand for Ethernet services from the corporate segment and prepare the network to deliver TV services.

We have our own DFON composed of 11,100 kilometers of fiber optic cable installed across the country connecting its major islands. It is the first fiber optic backbone in the country and is used in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network consists of two overlayed systems both of which use 10G/40G/100G coherent Reconfigurable Optical Add-Drop Multiplexer , or ROADM, technology and is composed of nodes connected by terrestrial and submarine cable links and is configured in seven

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self-healing rings and fourself-healing subtending rings which allow continuous flow of traffic in the event of single link failure. All major rings, except for one major ring in the Visayas, are provided with a third fiber optic cable route which further protects the network from outages in case of double/multiple link failures within the ring. Third leg for the remaining major ring in the Visayas will be implemented this year. To date, the PLDT DFON has an aggregate capacity of nearly 5 Terabits per second and is connected directly to three of PLDT s international submarine cable stations. The DFON is complemented by terrestrial microwave backbone to deliver services to areas not covered by fixed terrestrial transport network.

We likewise have an IP backbone network composed of high-capacity, high-performance core and edge routers which provides connectivity to all IP-based network elements of PLDT, Smart, other affiliates and subsidiaries, and corporate customers. It serves as the common, but highly resilient, IP transport platform for all IP-based services of the PLDT Group.

For many years and until today, PLDT has been using the poles of Meralco in Metropolitan Manila and in the rest of Meralco s service areas for PLDT s outside plant aerial cable pursuant to lease agreements with Meralco.

Digitel has fixed line infrastructure with similar network architecture and technologies as PLDT s infrastructure. It has legacy PSTN network in all of its service areas in Luzon and Metropolitan Manila and also has a DSL network deployed in a majority of its service areas. Digitel has a Luzon-wide transmission system consisting of microwave radio and fiber optics systems used to connect transit exchanges and other operators. The majority of Digitel s transmission network runs on microwave radio systems. Digitel has its own IP backbone, internet gateway and international voice gateway.

Considering the similarity of technology used, service coverage and products being offered, we believe there are significant potential gains for cost efficiency through a converged network. Aside from the DFON, which serves as the common high bandwidth FOC-based backbone network for the PLDT Group, PLDT and Digitel have embarked on further synergy initiatives to rationalize and integrate the network which includes, among others, the outside plant, the DSL network, the IP backbone, the transmission systems, the internet gateway, international voice gateway, the PSTN, and NGN. Customer care systems and operation support systems are also rationalized and integrated to align with the converged network.

International

PLDT provides international network services via two international gateways. PLDT s two international gateways are located in the cities of Manila and Makati. At the moment, we have two new IP softswitches that are expected to replace PLDT two legacy switches which we use to provide international voice services. As at December 31, 2012, PLDT s international long distance facilities allow direct correspondence with 42 countries (representing 96 correspondents) and can reach 668 foreign destinations (via direct and transited routes including fixed and mobile network destination breakouts) worldwide.

As at December 31, 2012, Digitel s international long distance facilities also allows direct correspondence with 20 countries (representing 46 correspondents) and can reach 182 foreign destinations (via direct and transited routes including fix and mobile breakouts) worldwide. In addition, Digitel has two IGF switches, located in Mandaluyong City and Quezon City. These two gateway facilities can provide instant connectivity to more than 79 international destinations, complementing PLDT s reach.

We also own interests in submarine cable systems, through which we route all of our international voice and data traffic as well as private data lines.

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The table below shows the submarine cable systems in which PLDT has interests and the countries or territories they link:

Cable System	Countries Being Linked
Asia-Pacific Cable Network 2, or APCN2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
China-United States Cable Network, or CUCN	Japan, China, Taiwan, Korea, Guam and the U.S. Mainland
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
East Asia Crossing, or EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
Pacific Crossing-1, or PC1, Japan-U.S., TGN-P, Unity	Japan and the U.S.
AAG Cable Network	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland
Asia Submarine-cable Express, or ASE	Philippines, Japan, Singapore, Malaysia and Hong Kong

PLDT, in partnership with leading telecom firms in Asia, completed the construction of the ASE optical fiber cable system on August 10, 2012 in partnership with leading telecom firms in Asia. The 7,200-kilometer undersea cable network uses 40 Gbps technology that is upgradeable to 100 Gbps, with a minimum design capacity of 15 Terabits. With its landing station at Daet, Camarines Norte, the ASE provides the first and only direct cable connection from the Philippines to Japan that avoids the earthquake-prone sea south of Taiwan, through which the other cable systems pass across.

On August 30, 2012, the APCN2 Stage 1g and 2d upgrade projects were completed, providing PLDT with additional capacity (in multiples of 10Gs). PLDT has also acquired additional transpacific capacities in Unity, TGN-P and PC1 to interconnect with APCN2 and ASE.

Adding up to the above inventory is Digitel s submarine cable capacities in EAC, PC1 and CUCN.

The extent of PLDT s international cable infrastructure provides not only significant capacity in support of the business, it also ensures resiliency and redundancy in order to minimize service disruptions and guarantee continuity of service.

Interconnection Agreements

Since the issuance of E.O. No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and cellular carriers.

In January 2009, access charge for domestic calls from fixed line to other network s fixed line was updated to Php3.00 per minute; access charge for calls from fixed line to CMTS was updated to Php4.00 per minute. Meanwhile, CMTS calls to fixed line network remained at Php3.00 per minute.

PLDT is an Inter Exchange Carrier providing transit service among CMTS, LEC operators including the PAPTELCO. Transit is a service being provided by PLDT to connect calls from one carrier to other carriers mostly those that have no direct interconnection. Since January 2009, PLDT s transit fee remains at Php0.50 per minute for short haul (intra-island), Php1.25 per minute for long-haul (inter-island) and Php1.14 per minute for CMTS calls.

PLDT has continuously and actively negotiated with other legitimate Philippine fixed and CMTS carriers for interconnection based on the guidelines being issued by the NTC or any authorized government agency. These carriers include the major fixed and mobile players in the industry with nationwide operations, PAPTELCO and other non-PAPTELCO players, both of which usually operate in selected towns in the countryside. As at December 31, 2012, PAPTELCO has 42 member companies operating 114 main telephone exchanges in the countryside.

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As at December 31, 2012, the PLDT Group is interconnected with 96 foreign carriers from 42 countries worldwide with 668 international destinations.

The average international termination rate for calls to PLDT was approximately US$0.10 per minute in 2010, US$0.095 per minute in 2011 and approximately US$0.09 in 2012. Despite the global trend towards reductions in wholesale international termination rates, PLDT has only implemented modest rate reductions since 2009. Also, PLDT carries international calls terminating to Smart network where it has no direct interconnection.

The average international termination rate for calls to Smart was approximately US$0.125 per minute in 2010, 2011 and 2012. Access charge for SMS from Smart to other CMTS operators and vice versa had been reduced from Php0.35 per SMS to Php0.15 per SMS effective November 30, 2011, as mandated by the NTC through Memorandum Circular No. 02-10-2011.

The average international termination rates for calls to Digitel was approximately US$0.10 per minute in 2010, US$0.097 per minute in 2011 and approximately US$0.094 in 2012. For international calls terminating DMPI/*Sun Cellular*, the average termination rates were approximately US$0.104 per minute in 2010, US$0.103 in 2011 and approximately US$0.101 in 2012.

Licenses and Regulations

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 times 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 Item 3. Key Information Risk Factors Risk Relating to Us 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.

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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. The said motion remains pending with the NTC as at the date.

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.

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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 Item 4. Information on the Company Development Activities (2010-2012) 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. Likewise, PDSI is a registered VAS provider for internet access services and VoIP.

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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 Item 4. Information on the Company Development Activities (2010-2012) 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 Item 8. Financial Information 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

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which tend to bring about artificial and unreasonable increase, decrease or fixing in the price of any goods or when they simultaneously and unreasonably increase, decrease or fix the prices of their seemingly competing goods thereby lessening competition in the relevant market among themselves. This bill has undergone third reading but to date, no final version has yet been released.

There are also bills introduced in the 15^{th} 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.

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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 Item 3. Key Information Risk Factors 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 Item 3. Key Information Risk Factors 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.

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.

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.

Smart s network leads the industry in terms of coverage with 18,337 cellular/mobile broadband base stations, including DMPI s 6,760 base stations as at December 31, 2012.

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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 February 2012, the PLDT Group s 3G network has achieved about 71% population coverage.

In August 2012, Smart launched its LTE network which currently includes 1,000 LTE 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 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 .

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 BayanTel and Globe, 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 384kbps. 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.

BayanTel 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.

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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.

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 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 lowering 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.

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 ISPs 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.

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 and BayanTel. 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.

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Environmental Matters

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

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.

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 December 31, 2012, we had 10,440 cell sites, 18,337 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations, which include DMPI s 4,459 cell sites and 6,760 cellular/mobile broadband base stations.

As at December 31, 2012, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 71% 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

- 5% consisted of other work equipment.

For more information on these properties, see *Note 9 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18.

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

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites, telecommunications equipment locations and various office equipment. For more information on the obligations relating to these properties and long-term obligations, see *Note 27 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

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

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continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2013 budget for consolidated capital expenditures is approximately Php29 billion, of which approximately, approximately Php13 billion is budgeted to be spent by Smart; Php12 billion is budgeted to be spent by PLDT; approximately Php3 billion is budgeted to be spent by Digitel; and the balance represents the budgeted capital spending of our other subsidiaries. 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. 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. Digitel 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, particularly in provincial areas to achieve greater business benefits from a closely synergized environment.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements (and the related notes) as at December 31, 2012 and 2011 and for the three years in the period ended December 31, 2012 included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements as a result of particular factors such as those set forth under Forward-Looking Statements and Item 3. Key Information Risk Factors and elsewhere in this report. Our consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. For convenience, certain Philippine peso financial information in the following discussions has been converted to U.S. dollars at the exchange rate at December 31, 2012 of Php41.08 to US$1.00, as quoted through the Philippine Dealing System.

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 four reportable operating segments which serve as the basis for management s decision to allocate resources and evaluate operating performance:

Wireless wireless telecommunications services provided by Smart, CURE, and DMPI, which is the operator of the *Sun Cellular* business and is a wholly-owned subsidiary of Digitel, our cellular service providers; SBI and PDSI, our wireless broadband service providers; Wolfpac and Chikka 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., Philcom or Philcom Group, PLDT-Maratel, Inc., SBI, PDSI, Bonifacio Communications Corporation, PLDT Global, and Digitel, all of which together account for approximately 13% of our consolidated fixed line subscribers; and information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, IPCDSI and AGS Group; netGames, Inc.; and bills printing and other VAS-related services provided by ePDS;

BPO knowledge processing solutions provided by SPi Technologies, Inc., or SPi, and its subsidiaries, or SPi Group; and customer relationship management provided by SPi CRM Inc., or SPi CRM, SPi Global Investments Limited, and Infocom; and

Others PCEV, an investment holding company.

For a more detailed overview of our four main business segments, see Item 4. Information on the Company Organization Wireless , Item 4. Information on the Company Organization Fixed Line and Item 4. Information on the Company Organization Business Process Outsourcing , respectively.

Key performance indicators and drivers that our management uses for the management of our business include, among others, the general economic conditions in the Philippines, our subscriber base, traffic volumes, and interconnection arrangements.

In addition, our results of operations and financial position are with increasing significance affected by fluctuations of the Philippine peso against the U.S. dollar. Since a substantial portion of our indebtedness is denominated in U.S. dollars, a depreciation or appreciation of the Philippine peso against the U.S. dollar as at the end of the most recent fiscal year compared to the end of the previous fiscal year may result in our recognition of significant foreign exchange losses or gains, respectively. For example, the Philippine peso appreciated against the U.S. dollar from Php43.92 as at December 31, 2011 to Php41.08 as at December 31, 2012, as a result of which we recognized in 2012 foreign exchange gains in the amount of Php3,282 million, representing an increase of Php4,017 million as against foreign exchange losses in the amount of Php735 million in 2011. Moreover, since approximately 27% of our revenues are either denominated in U.S. dollars or linked to the U.S. dollar, a depreciation or appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increases or decreases our revenues in Philippine peso terms and increases or decreases our cash flow from operations, respectively. For example, the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.24 in 2012 from Php43.31 in 2011 decreased our U.S. dollar and U.S. dollar-linked revenues in Philippine peso terms. Furthermore, fluctuations of the Philippine peso against the U.S. dollar resulted in gains or losses on our derivative financial instruments, which with increasing significance affect our results of operations and financial position. For example, we recognized net losses on derivative financial instruments of Php2,009 million in 2012 from net gains on derivative financial instruments of Php201 million in 2011.

On October 26, 2011, we completed the acquisition of the Digitel Group. Our historical consolidated financial statements for the year ended on December 31, 2010 do not include financial results of the Digitel Group, and neither pro forma nor historical consolidated financial statements showing our combined results of operations and financial position with Digitel Group, have been prepared or are being provided in this annual report. Our financial statements for the year ended December 31, 2011 include the financial results of the Digitel Group for the period from October 26, 2011 to December 31, 2011. Our financial statements for the year ended December 31, 2012 include the full year financial results of the Digitel Group for the year ended December 31, 2012. As a result, this may make it difficult to compare our past results of operations and financial position or to estimate our consolidated performance in the future.

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 . We adjusted the comparative consolidated income statement for the years ended December 31, 2011 and 2010 to present the results of operations of our BPO business as discontinued operations. See Item 4. Information on the Company Recent Developments for further discussion

Management s Financial Review

As discussed in Item 3. Key Information Performance Indicators , we use our Adjusted EBITDA and core income to assess our operating performance; a reconciliation of our consolidated Adjusted EBITDA and our consolidated core income to our consolidated net income for the years ended December 31, 2012, 2011 and 2010 is set forth below.

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

	2012(1)			2011(2)			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
					(in millions)				
Consolidated Adjusted EBITDA	Php 75,632	Php 1,626	Php 77,258	Php 78,547	Php 1,412	Php 79,959	Php 82,660	Php 1,057	Php 83,717
Foreign exchange gains net	3,282	(39)	3,243	(735)	(9)	(744)	1,850	(43)	1,807
Equity share in net earnings of associates and joint ventures	1,538		1,538	2,035		2,035	1,408		1,408
Interest income	1,354	16	1,370	1,357	15	1,372	1,180	20	1,200
Asset impairment	(921)	(180)	(1,101)	(8,514)	(3)	(8,517)	(478)	(1,018)	(1,496)
Amortization of intangible assets	(2,009)	28	(1,981)	(117)	(147)	(264)	(163)	(225)	(388)
Gains (losses) on derivative financial instruments net	(2,896)		(2,896)	201	(4)	197	(1,741)		(1,741)
Financing costs net	(6,876)	(24)	(6,900)	(6,454)	(37)	(6,491)	(6,530)	(168)	(6,698)
Depreciation and amortization	(32,354)	(466)	(32,820)	(27,539)	(418)	(27,957)	(25,881)	(396)	(26,277)
Other income	6,003	127	6,130	2,947	140	3,087	1,929	224	2,153
Consolidated income before income tax	42,753	1,088	43,841	41,728	949	42,677	54,234	(549)	53,685
Provision for income tax	(8,012)	(428)	(8,440)	(10,922)	(118)	(11,040)	(13,490)	64	(13,426)
Consolidated adjusted net income	Php 34,741	Php 660	Php 35,401	Php 30,806	Php 831	Php 31,637	Php 40,744	(Php 485)	Php 40,259

(1) Includes the Digitel Group s Adjusted EBITDA for the year ended December 31, 2012.
(2) Includes the Digitel Group s Adjusted EBITDA for the period from October 26, 2011 to December 31, 2011.

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2012, 2011 and 2010:

	2012(1)			2011(2)			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
					(in millions)				
Consolidated core income for the year	Php 36,665	Php 668	Php 37,333	Php 38,282	Php 753	Php 39,035	Php 41,486	Php 542	Php 42,028
Foreign exchange gains net	3,282	(39)	3,243	(741)	(9)	(750)	1,862	(43)	1,819
Core income adjustment on equity share in net earnings of associates and joint ventures	(91)		(91)	(476)		(476)	(699)		(699)
Gains (losses) on derivative financial instruments net, excluding hedge cost	(1,689)	28	(1,661)	564	(4)	560	(1,307)		(1,307)
Asset impairment	(2,896)		(2,896)	(8,514)	(3)	(8,517)	(474)	(1,018)	(1,492)
Others				143	90	233			
Net tax effect of aforementioned adjustments	(477)	3	(474)	1,608	4	1,612	(166)	34	(132)

Net income attributable to equity holders of PLDT	34,794	660	35,454	30,866	831	31,697	40,702	(485)	40,217
Net loss attributable to noncontrolling interests	(53)		(53)	(60)		(60)	42		42
Consolidated net income for the year	Php 34,741	Php 660	Php 35,401	Php 30,806	Php 831	Php 31,637	Php 40,744	(Php 485)	Php 40,259

(1) *Includes the Digitel Group s core income for the year ended December 31, 2012.*

(2) *Includes the Digitel Group s core income for the period from October 26, 2011 to December 31, 2011.*

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the end of each reporting period. The uncertainties inherent in these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future years.

Judgments

In the process of applying the PLDT Group s accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amounts recognized in our consolidated financial statements.

Assets held-for-sale and discontinued operations

On December 4, 2012, our Board of Directors authorized the sale of our BPO segment. Consequently, as at December 31, 2012, the BPO segment was classified as discontinued operations and a disposal group held-for-sale. The BPO segment met the criteria of an asset to be classified as held-for-sale as at December 31, 2012 for the following reasons: (1) the BPO segment was available for immediate sale and can be sold to a potential buyer in its current condition; (2) the Board of Directors had a plan to sell the BPO segment and had entered into preliminary negotiations with a potential buyer and should the negotiation with the 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 years ended December 31, 2011 and 2010 to present the results of operations of our BPO segment as a discontinued operations. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

On July 10, 2012, ePLDT entered into a Share Purchase Agreement with Philweb for the sale of 398 million common shares of Philweb, representing ePLDT s 27% equity interest in Philweb. The sale of the 398 million common shares will be executed in four tranches, and is expected to be completed by the end of 2013. Thus, the investment in Philweb was classified as assets held-for-sale as at December 31, 2012. See *Note 10 Investments in Associates and Joint Ventures and Deposit Investment in Philweb* and *Note 27 Financial Assets and Liabilities ePLDT Group* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Classifying HTM investments

The classification of financial assets to held-to-maturity, or HTM, investments requires significant judgment. In making this judgment, PLDT Group evaluates its intention and ability to hold such investments to maturity. If PLDT Group fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of available-for-sale financial investments. The investments would thereafter be measured at fair value and not at amortized cost.

Our investments in certain quoted debt securities are classified as HTM investments. See *Note 11 Investment in Debt Securities and Other Long-term Investments* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Determination of functional currency

The functional currencies of the entities under the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue from and cost of rendering products and services.

The presentation currency of the PLDT Group is the Philippine peso. Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional currency of all entities under PLDT Group is the Philippine peso, except for, SMHC, SMI, TSI, FECL Group, PLDT Global and certain of its subsidiaries, PGNL, DCPL, SPi Global and certain of its subsidiaries, and certain subsidiaries of Chikka, which use the U.S. dollar. SHPL, SGP, 3rd Brand, and certain subsidiaries of AGS use the Singapore dollar as functional currency.

As a result of the internal reorganization within PLDT wherein BPO is now classified as an independent operating segment under SPi Global, management undertook a review of the functional currency exposures of SPi Global and certain of its subsidiaries in December 2011. Based on management s assessment, SPi Global and SPi CRM s new currency exposures are now largely U.S. dollars. Based on the aforementioned consideration, which is set forth in *IAS 21, The Effects of Changes in Foreign Exchange Rates,* SPi Global and SPi CRM commenced adopting U.S. dollars as its functional currency on December 6, 2011. See discussions in *Note 2 Summary of Significant Accounting Policies Foreign Currency Transactions and Translations* and *Note 4 Operating Segment Information* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Leases

As a lessee, we have various lease agreements in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us (finance lease) or retained by the lessor (operating lease) based on *IAS 17, Leases*. Total lease expense arising from operating leases from continuing operations amounted to Php5,860 million, Php3,938 million and Php3,699 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php263 million, Php224 million and Php271 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total finance lease obligations from continuing operations amounted to Php18 million and Php14 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php7 million and Php15 million as at December 31, 2012 and 2011, respectively. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations, Note 20 Interest-bearing Financial Liabilities Obligations under Finance Leases* and *Note 27 Financial Assets and Liabilities Liquidity Risk* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

PLDT s acquisition of Digitel

Our acquisition of 51.6% equity interest in Digitel and the mandatory tender offer for the Digitel shares held by the public or noncontrolling shareholders were accounted for as linked transactions and as a single business combination due to the following: (a) the price per share offered to remaining noncontrolling interest is fixed and the same price as what we offered to acquire the controlling interest of JGSHI; (b) the remaining noncontrolling shareholders of Digitel did not negotiate to receive the offer; (c) although the offer was initiated by PLDT, it stemmed from a regulatory requirement triggered by the acquisition of controlling interest in Digitel; and (d) the offer period is relatively for a short period of time.

As the acquisition of 51.6% equity interest and the mandatory tender offer were accounted for as linked transactions, we accounted for the business combination as if we have acquired 100% equity interest at the closing date of the transaction on October 26, 2011. A mandatory tender offer option liability is recognized and treated as part of consideration transferred in addition to the fair value of PLDT common shares issued to JGSHI. At the end of the tender offer period on January 16, 2012, the mandatory tender offer option liability is derecognized and corresponding settlement either in shares or in cash is recorded for those who opted for the mandatory tender offer. For the portion of mandatory tender offer option liability that expires unexercised, the mandatory tender offer option liability is derecognized and noncontrolling interest is set-up measured as of the date of acquisition. See *Note 13 Business Combinations and Acquisition of Noncontrolling Interests PLDT s Acquisition of Digitel* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below. We based our estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of PLDT. Such changes are reflected in the assumptions when they occur.

Asset impairment

IFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets, requires us to make estimates and assumptions in the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause us to conclude that property, plant and equipment, investments in associates and joint ventures, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under IFRS.

In December 2011, Smart recognized full impairment provision of Php8,457 million for certain network equipment and facilities which no longer efficiently support our network modernization program, which was discussed and approved by the Board of Directors on February 28, 2011 and have been identified for replacement. The full impairment provision recognized represents the net book value of these network equipment and facilities. See *Note 9 Property, Plant and Equipment Impairment of Certain Network Equipment and Facilities of Smart* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

In December 2012, DMPI recognized an impairment loss of Php2,881 million pertaining to the net book values of certain identified network equipment and facilities that are affected by the unified wireless strategy as the overall business of DMPI became anchored on PLDT s wireless business unit, Smart. The network modernization program resulted in network impairment of DMPI due to advancement in technologies. See *Note 9 Property, Plant and Equipment Impairment of Certain Network Equipment and Facilities of DMPI* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Total asset impairment on noncurrent assets from continuing operations amounted to Php2,896 million, Php8,514 million and Php478 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to nil, Php3 million and Php1,018 million for the years ended December 31, 2012, 2011 and 2010, respectively. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations, Note 4 Operating Segment Information, Note 5 Income and Expenses Asset Impairment* and *Note 9 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

The carrying values of our property, plant and equipment, investments in associates and joint ventures and deposit, goodwill and intangible assets, and prepayments are separately disclosed in Notes 9, 10, 14 and 18, respectively, to the accompanying audited consolidated financial statements in Item 18.

Estimating useful lives of property, plant and equipment and intangible assets with finite life

We estimate the useful lives of each item of our property, plant and equipment and intangible assets with finite life based on the periods over which our assets are expected to be available for use. Our estimate of the useful lives of our property, plant and equipment and intangible assets with finite life is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment and intangible assets with finite life are reviewed every year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment and intangible assets with finite life would increase our recorded depreciation and amortization and decrease our property, plant and equipment and intangible assets.

The total depreciation and amortization of property, plant and equipment from continuing operations amounted to Php32,354 million, Php27,539 million and Php25,881 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php466 million, Php418 million and Php396 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization from continuing operations, amounted to Php200,078 million and Php200,142 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php1,529 million as at December 31, 2012.

The total amortization of intangible assets from continuing operations amounted to Php921 million, Php117 million and Php163 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php180 million, Php147 million and Php225 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of intangible assets from continuing operations amounted to Php7,505 million and Php8,698 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php354 million as at December 31, 2012.

See *Note 2 Summary of Significant Accounting Policies Discontinued Operations, Note 4 Operating Segment Information, Note 9 Property, Plant and Equipment* and *Note 14 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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Determining the fair value of investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value. Appraisal of investment properties is performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php21 million, Php26 million and Php6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of our investment properties amounted to Php712 million and Php1,115 million as at December 31, 2012 and 2011, respectively. See *Note 12 Investment Properties* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Goodwill and intangible assets

Our consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree s identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree s assets and liabilities can materially affect our financial performance.

Intangible assets acquired from business combination with finite lives are amortized over the expected useful life using the straight-line method of accounting. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in our consolidated income statement.

The total amortization of intangible assets from continuing operations amounted to Php921 million, Php117 million and Php163 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php180 million, Php147 million and Php225 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total carrying values of goodwill and intangible assets from continuing operations amounted to Php74,250 million and Php83,303 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php7,033 million as at December 31, 2012. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations* and *Note 14 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Recognition of deferred income tax assets

We review the carrying amounts of deferred income tax assets at the end of each reporting period and reduce these to the extent that these are no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized. We also review the level of projected gross margin for the use of Optional Standard Deduction, or OSD method, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart and SBI s projected gross margin, they expect to continue using the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets amounted to Php15,351 million and Php16,098 million as at December 31, 2012 and 2011, respectively. In addition, our unrecognized net deferred income tax assets for items which would not result in future tax benefits when using the

OSD method amounted to Php3,655 million and Php4,240 million as at December 31, 2012 and 2011, respectively. Total consolidated benefit from deferred income tax from continuing operations amounted to Php957 million and Php986 million for the years ended December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php28 million and Php275 million for the years ended December 31, 2012 and 2011, respectively. Total consolidated provision for deferred income tax amounted to Php1,341 million for the year ended December 2010 from continuing operations, while that from discontinued operations amounted to Php64 million. Total consolidated net deferred income tax assets from continuing operations amounted to Php5,483 million and Php5,975 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php214 million as at December 31, 2012. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations, Note 4 Operating Segment Information* and *Note 7 Income Taxes* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Estimating allowance for doubtful accounts

If we assessed that there was an objective evidence that an impairment loss has been incurred in our trade and other receivables, we estimate the allowance for doubtful accounts related to our trade and other receivables that are specifically identified as doubtful of collection. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including, but not limited to, the length of our relationship with the customer and the customer s credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common credit characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total provision for doubtful accounts for trade and other receivables from continuing operations recognized in our consolidated income statements amounted to Php2,175 million, Php1,543 million and Php834 million for the years ended December 31, 2012, 2011 and 2010, respectively, while that from discontinued operations amounted to Php3 million, Php6 million and Php1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Trade and other receivables, net of allowance for doubtful accounts, from continuing operations amounted to Php16,379 million and Php16,245 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php2,704 million as at December 31, 2012. See *Note 2 Summary of Significant Accounting Policies Discontinued Operations, Note 4 Operating Segment Information, Note 5 Income and Expenses Asset Impairment, Note 16 Trade and Other Receivables* and *Note 27 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Estimating net realizable value of inventories and supplies

We write-down the cost of inventories whenever the net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete or unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies amounted to Php215 million, Php143 million and Php108 million for the years ended December 31, 2012, 2011 and 2010, respectively. The carrying values of inventories and supplies amounted to Php3,467 million and Php3,827 million as at December 31, 2012 and 2011, respectively. See *Note 4 Operating Segment Information, Note 5 Income and Expenses Asset Impairment* and *Note 17 Inventories and Supplies* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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Estimation of pension benefit costs and other employee benefits

The cost of defined benefit plans and present value of the pension obligation are determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, expected rates of return on plan assets, rates of compensation increases and mortality rates. See *Note 25 Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 for further discussion. Actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. These excess actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for pension and other retirement obligations. All assumptions are reviewed every year-end.

Net consolidated pension benefit costs from continuing operations amounted to Php74 million and Php186 million for the years ended December 31, 2012 and 2010, respectively, and total consolidated pension benefit income amounted to Php82 million for the year ended December 31, 2011, while net consolidated pension benefit costs from discontinued operations amounted to Php53 million, Php44 million and Php50 million for the years ended December 31, 2012, 2011 and 2010, respectively. Unrecognized net actuarial losses from continuing operations amounted to Php6,554 million as at December 31, 2012, while that from discontinued operations amounted to Php18 million. Unrecognized net actuarial gains from continuing operations amounted to Php2,886 million as at December 31, 2011. The prepaid benefit costs from continuing operations amounted to Php7,864 million and Php5,654 million as at December 31, 2012 and 2011, respectively. The accrued benefit costs from continuing operations amounted to Php331 million and Php496 million as at December 31, 2012 and 2011, respectively, while that from discontinued operations amounted to Php224 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 audited consolidated financial statements in Item 18 for further discussion.

The 2010 to 2012 LTIP, was presented to and approved by the Executive Compensation Committee, or ECC, and the Board of Directors, and was based on profit targets for the covered performance cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While we believed that our assumptions were reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our cost for other employee benefits. All assumptions were reviewed on a monthly basis. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at December 31, 2010. Based on our projection 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. See *Note 5 Income and Expenses Compensation and Employee Benefits* and *Note 25 Employee Benefits Other Long-term Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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 with the endorsement of the ECC was approved by the Board of Directors on March 22, 2012. The award in the 2012 to 2014 LTIP is contingent upon the successful achievement of certain profit targets, aligns the execution of the business strategies of the expanded Group, including Digitel, over the three year period from 2012 to 2014. In addition, the 2012 to 2014 LTIP allows for the participation of a number of senior executives and certain newly hired executives, and ensures the continuity of management in line with the succession planning of the PLDT Group. LTIP costs and liability recognized as at and for the year ended December 31, 2012 amounted to Php1,491 million. See *Note 5 Income and Expenses Compensation and Employee Benefits* and *Note 25 Employee Benefits Other Long-term Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php2,543 million and Php2,107 million as at December 31, 2012 and 2011, respectively. See *Note 21 Deferred Credits and Other Noncurrent Liabilities* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings and tax assessments. Our estimate of the probable costs for the resolution of these claims have been developed in consultation with our counsel handling the defense in these matters and is based upon our analysis of potential results. We currently do not believe these proceedings could materially reduce our revenues and profitability. It is possible, however, that future financial performance could be materially affected by changes in our estimates or effectiveness of our strategies relating to these proceedings and assessments. See *Note 26 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

Based on management s assessment, appropriate provisions were made; however, management has decided not to disclose further details of these provisions as they may prejudice our position in certain legal proceedings.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, we cannot assure you that the use of such estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our fixed line and wireless businesses are split into separately identifiable components based on their relative fair value in order to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method. We account for mobile contracts in accordance with *IAS 18, Revenue Recognition,* and have concluded that the handset and the mobile services may be accounted for as separate identifiable components. The handset (with activation) is delivered first, followed by the mobile service (which is provided over the contract period, generally one or two years). Because some amount of the arrangement consideration that may be allocated to the handset generally is contingent on providing the mobile service, the amount that is allocated to the handset is limited to the cash received (i.e., the amount paid for the handset) at the time of the handset delivery.

Under certain arrangements with our knowledge processing solutions services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and only to such amount is determined to be recoverable.

We recognize our revenues from installation and activation related fees and the corresponding costs over the expected average periods of customer relationship for fixed line and cellular services. We estimate the expected average period of customer relationship based on our most recent churn rate analysis.

Determination of fair values of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including

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the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities as at December 31, 2012 amounted to Php68,961 million and Php234,828 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2011 amounted to Php72,002 million and Php216,443 million, respectively. See *Note 27 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2012

See *Note 2 Summary of Significant Accounting Policies* to the accompanying audited consolidated financial statements in Item 18 for the discussion of new accounting standards that will become effective subsequent to December 31, 2012 and their anticipated impact on our consolidated financial statements for the current and future periods.

Results of Operations

The table below shows the contribution by each of our business segments to our consolidated revenues, expenses, other income (expense), income (loss) before income tax, net income (loss), Adjusted EBITDA, Adjusted EBITDA margin and core income for the years ended December 31, 2012, 2011 and 2010. In each of the years ended December 31, 2012 and 2011, a majority of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Wireless	Fixed Line	BPO	Others	Inter-segment Transactions	Consolidated	Discontinued Operations [2]	Continuing Operations
				(in millions)				
For the years ended December 31, 2012								
Revenues	Php 119,592	Php 62,490	Php 9,899	Php	(Php 19,355)	Php 172,626	9,142	Php 163,484
Expenses	87,961	55,555	8,478	18	(19,827)	132,185	8,162	124,023
Other income (expenses)	931	(1,553)	136	4,358	(472)	3,400	108	3,292
Income before income tax	32,562	5,382	1,557	4,340		43,841	1,088	42,753
Provision for income tax	8,094	(89)	428	7		8,440	428	8,012
Net income/Segment profit	24,468	5,471	1,129	4,333		35,401	660	34,741
Adjusted EBITDA	54,433	20,304	2,067	(18)	472	77,258	1,626	75,632
Adjusted EBITDA margin[1]	46%	33%	21%			46%	18%	47%
Core income	25,685	6,087	1,137	4,424		37,333	668	36,665
For the years ended December 31, 2011								
Revenues	103,538	60,006	8,588		(15,529)	156,603	8,124	148,479
Expenses	71,049	50,620	7,598	11	(15,896)	113,382	7,280	106,102
Other income (expenses)	(1,694)	(593)	112	1,998	(367)	(544)	105	(649)
Income before income tax	30,795	8,793	1,102	1,987		42,677	949	41,728
Provision for income tax	8,429	2,491	118	2		11,040	118	10,922
Net income/Segment profit	22,366	6,302	984	1,985		31,637	831	30,806
Adjusted EBITDA	55,393	22,675	1,558	(11)	344	79,959	1,412	78,547
Adjusted EBITDA margin[1]	54%	39%	18%			52%	17%	54%
Core income	29,903	5,765	906	2,461		39,035	753	38,282
For the years ended December 31, 2010								
Revenues	105,381	60,158	8,112		(15,264)	158,387	7,573	150,814
Expenses	59,807	50,243	8,481	19	(15,719)	102,831	8,155	94,676
Other income (expenses)	(136)	(2,694)	43	1,371	(455)	(1,871)	33	(1,904)
Income before income tax	45,438	7,221	(326)	1,352		53,685	(549)	54,234
Provision for income tax	11,413	2,076	(64)	1		13,426	(64)	13,490

Net income/Segment profit	34,025	5,145	(262)	1,351		40,259	(485)	40,744
Adjusted EBITDA	58,964	23,047	1,270	(19)	455	83,717	1,057	82,660
Adjusted EBITDA margin[1]	57%	39%	16%			54%	14%	56%
Core income	33,352	5,845	765	2,066		42,028	542	41,486

(1) *Adjusted EBITDA margin is measured as Adjusted EBITDA divided by service revenues.*

(2) *Includes BPO segment, net of intercompany transactions. See Presentation of Financial Information section, Item 4. Information on the Company Recent Developments , 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 audited consolidated financial statements in Item 18 for a further discussion of the classification of the BPO segment as an asset held-for-sale.*

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

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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.

2012 Compared to 2011

On a Consolidated Basis

Revenues

We reported consolidated revenues, including revenues from discontinued operations, of Php172,626 million in 2012, an increase of Php16,023 million, or 10%, as compared with Php156,603 million in 2011, primarily due to an increase in our service revenues by Php15,373 million as a result of higher cellular and broadband revenues from our wireless business, higher revenues from data and other network and local exchange services of our fixed line business, as well as higher revenues from our BPO business, partially offset by lower revenues from international and national long distance, and miscellaneous services of our fixed line business, and satellite and other services of our wireless business.

The following table shows the breakdown of our consolidated revenues by business segment for the years ended December 31, 2012 and 2011:

	2012[(1)]	%	2011[(2)]	%	Change Amount	%
			(in millions)			
Wireless	Php 119,592	69	Php 103,538	66	Php 16,054	16
Fixed line	62,490	36	60,006	38	2,484	4
BPO	9,899	6	8,588	6	1,311	15
Inter-segment transactions	(19,355)	(11)	(15,529)	(10)	(3,826)	25
Consolidated	Php 172,626	100	Php 156,603	100	Php 16,023	10

(1) *Includes the Digitel Group s revenue contribution of Php22,812 million for the full year 2012.*

(2) *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, including expenses from discontinued operations, increased by Php18,803 million, or 17%, to Php132,185 million in 2012 from Php113,382 million in 2011, largely as a result of higher expenses related to compensation and employee benefits, depreciation and amortization, cost of sales, repairs and maintenance, rent, selling and promotions, amortization of intangible assets, communication, training and travel, professional and other contracted services, and insurance and security, partly offset by lower asset impairment, interconnection costs, taxes and licenses, and other operating expenses.

The following table shows the breakdown of our consolidated expenses by business segment for the years ended December 31, 2012 and 2011:

	2012[(1)]	%	2011[(2)]	%	Change Amount	%
			(in millions)			
Wireless	Php 87,961	67	Php 71,049	63	Php 16,912	24
Fixed line	55,555	42	50,620	44	4,935	10
BPO	8,478	6	7,598	7	880	12

Others	18		11		7	64
Inter-segment transactions	(19,827)	(15)	(15,896)	(14)	(3,931)	25
Consolidated	Php 132,185	100	Php 113,382	100	Php 18,803	17

(1) *Includes the Digitel Group s expenses of Php24,897 million for the full year 2012.*

(2) *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, including other income from discontinued operations, amounted to Php3,400 million in 2012, a change of Php3,944 million as against other expenses of Php544 million in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php3,987 million mainly due to the revaluation of net foreign-currency denominated liabilities as a result of the effect of a higher level of appreciation of the Philippine peso to the U.S. dollar and the increase in the Digitel Group s contribution to gain on revaluation of dollar-denominated net liabilities in 2012; (ii) an increase in other income by Php3,043 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, partially offset by lower pension benefit income recognized by PLDT; (iii) lower interest income by Php2 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 Php409 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) net decrease in equity share in net earnings of associates and joint ventures by Php497 million; and (vi) net losses on derivative financial instruments of Php1,981 million in 2012 as against net gains on derivative financial instruments of Php197 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:

	2012[1]	%	2011[2]	%	Change Amount	Change %
			(in millions)			
Wireless	Php 931	27	(Php 1,694)	311	Php 2,625	155
Fixed line	(1,553)	(45)	(593)	109	(960)	162
BPO	136	4	112	(20)	24	21
Others	4,358	128	1,998	(367)	2,360	118
Inter-segment transactions	(472)	(14)	(367)	67	(105)	29
Consolidated	Php 3,400	100	(Php 544)	100	Php 3,944	725

(1) *Includes the Digitel Group s other income of Php1,007 million for the full year 2012.*

(2) *Includes the Digitel Group s other expenses of Php942 million for the period from October 26, 2011 to December 31, 2011.*

Net Income

Consolidated net income, including net income from discontinued operations, increased by Php3,764 million, or 12%, to Php35,401 million in 2012, from Php31,637 million in 2011. The increase was mainly due to the combined effects of the following: (i) an increase in consolidated revenues by Php16,023 million; (ii) an increase in consolidated other income net by Php3,944 million; (iii) a decrease in consolidated provision for income tax by Php2,600 million, which was mainly due to lower taxable income from our fixed line business, partially offset by higher taxable income of our wireless, BPO and other businesses; and (iv) an increase in consolidated expenses by Php18,803 million. Our consolidated basic and diluted EPS, including EPS from discontinued operations, increased to Php163.86 in 2012 from consolidated basic and diluted EPS of Php163.24 and Php163.10, respectively, in 2011. Our weighted average number of outstanding common shares was approximately 216.1 million and 191.4 million in the years ended December 31, 2012 and 2011, respectively.

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The following table shows the breakdown of our consolidated net income by business segment for the years ended December 31, 2012 and 2011:

	2012[1]	%	2011[2] (in millions)	%	Change Amount	%
Wireless	Php 24,468	69	Php 22,366	71	Php 2,102	9
Fixed line	5,471	16	6,302	20	(831)	(13)
BPO	1,129	3	984	3	145	15
Others	4,333	12	1,985	6	2,348	118
Consolidated	Php 35,401	100	Php 31,637	100	Php 3,764	12

[1] *Includes the Digitel Group s net loss of Php147 million for the full year 2012.*

[2] *Includes the Digitel Group s net loss of Php606 million for the period from October 26, 2011 to December 31, 2011.*

Adjusted EBITDA

Our consolidated Adjusted EBITDA, including Adjusted EBITDA from discontinued operations, amounted to Php77,258 million in 2012, a decrease of Php2,701 million, or 3%, as compared with Php79,959 million in 2011, primarily due to higher operating expenses driven by higher compensation and employee benefits, cost of sales, repairs and maintenance, selling and promotions, rent, and communication, training and travel, partially offset by an increase in consolidated revenues.

The following table shows the breakdown of our consolidated Adjusted EBITDA by business segment for the years ended December 31, 2012 and 2011:

	2012[1]	%	2011[2] (in millions)	%	Change Amount	%
Wireless	Php 54,433	70	Php 55,393	69	(Php 960)	(2)
Fixed line	20,304	26	22,675	28	(2,371)	(10)
BPO	2,067	3	1,558	2	509	33
Others	(18)		(11)		(7)	64
Inter-segment transactions	472	1	344	1	128	37
Consolidated	Php 77,258	100	Php 79,959	100	(Php 2,701)	(3)

[1] *Includes the Digitel Group s Adjusted EBITDA of Php6,545 million for the full year 2012.*

[2] *Includes the Digitel Group s Adjusted 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 Php37,333 million in 2012, a decrease of Php1,702 million, or 4%, as compared with Php39,035 million in 2011, primarily due to an increase in consolidated expenses, partially offset by increases in consolidated revenues and other income, as well as lower provision for income tax. Our consolidated basic and diluted core EPS, including basic and diluted core EPS from discontinued operations, also decreased to Php172.56 in 2012 from Php201.58 and Php201.41, respectively, in 2011.

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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)	%	2011(2) (in millions)	%	Increase (Decrease) Amount	%
Wireless	Php 25,685	69	Php 29,903	77	(Php 4,218)	(14)
Fixed line	6,087	16	5,765	15	322	6
BPO	1,137	3	906	2	231	25
Others	4,424	12	2,461	6	1,963	80
Consolidated	Php 37,333	100	Php 39,035	100	(Php 1,702)	(4)

(1) *Includes the Digitel Group s core income of Php1,801 million for the full year 2012.*
(2) *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 Php119,592 million in 2012, an increase of Php16,054 million, or 16%, 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)	%	2011(2) (in millions)	%	Increase (Decrease) Amount	%
Service Revenues:						
Cellular	Php 107,359	90	Php 93,645	90	Php 13,714	15
Wireless broadband, and satellite and others						
Wireless broadband	8,512	7	6,804	7	1,708	25
Satellite and others	1,568	1	1,620	2	(52)	(3)
	117,439	98	102,069	99	15,370	15
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	2,153	2	1,469	1	684	47
Total Wireless Revenues	Php 119,592	100	Php 103,538	100	Php 16,054	16

(1) *Includes DMPI s revenue contribution of Php21,351 million for the full year 2012.*
(2) *Includes DMPI 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 Php15,370 million, or 15%, to Php117,439 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 was 98% and 99% in 2012 and 2011, respectively.

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Cellular Service

Our cellular service revenues in 2012 amounted to Php107,359 million, an increase of Php13,714 million, or 15%, from Php93,645 million in 2011. Cellular service revenues was 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)	**2011**(2)	**Increase Amount**	**%**
		(in millions)		
Cellular service revenues	Php 107,359	Php 93,645	Php 13,714	15
By service type	*104,766*	*91,120*	*13,646*	*15*
Prepaid	87,770	81,648	6,122	7
Postpaid	16,996	9,472	7,524	79
By component	*104,766*	*91,120*	*13,646*	*15*
Voice	51,492	43,885	7,607	17
Data	53,274	47,235	6,039	*13*
Others(3)	*2,593*	*2,525*	*68*	*3*

(1) *Includes DMPI s cellular service revenues of Php19,106 million for the full year 2012.*

(2) *Includes DMPI s cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*

(3) *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.*

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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 Prepaid	*24,827,418*	*26,573,137*	*(1,745,719)*	*(7)*
Talk N Text	*28,445,053*	*20,467,175*	*7,977,878*	*39*
Sun Cellular	*14,105,031*	*13,314,096*	*790,935*	*6*
Red Mobile(1)	*234,035*	*1,438,384*	*(1,204,349)*	*(84)*
Postpaid	2,254,921	1,903,837	351,084	18
Sun Cellular	*1,571,441*	*1,353,089*	*218,352*	*16*
Smart	*683,428*	*550,485*	*132,943*	*24*
Red Mobile(1)	*52*	*263*	*(211)*	*(80)*
Systemwide traffic volumes (in millions)				
Calls (in minutes)(2)	53,472	44,192	9,280	21
Domestic	50,039	41,107	8,932	22
Inbound	*1,699*	*1,350*	*349*	*26*
Outbound	*48,340*	*39,757*	*8,583*	*22*
International	3,433	3,085	348	11
Inbound	*3,036*	*2,862*	*174*	*6*
Outbound	*397*	*223*	*174*	*78*
SMS/Data count (in hits)(3)	519,840	354,135	165,705	47
Text messages	509,476	351,502	157,974	45
Domestic	508,624	350,858	157,766	45
Bucket-Priced/Unlimited	464,698	322,588	142,110	44
Standard	43,926	28,270	15,656	55
International	852	644	208	32
Value-Added Services	10,311	2,596	7,715	297
Financial Services	53	37	16	43

(1) *Activations have been discontinued since the fourth quarter of 2011 due to the transfer of the Red Mobile business from CURE to Smart which was completed on June 30, 2012.*

(2) *Includes DMPI s minutes of 15,758 million minutes for the full year 2012 and 2,681 million minutes for the period from October 26, 2011 to December 31, 2011.*

(3) *Includes DMPI s SMS count of 64,427 million for the full year 2012 and 10,471 million for the period from October 26, 2011 to December 31, 2011.*

Revenues generated from our prepaid cellular services amounted to Php87,770 million in 2012, an increase of Php6,122 million, or 7%, as compared with Php81,648 million in 2011. Prepaid cellular service revenues was 84% and 90% of cellular voice and data revenues in 2012 and 2011, respectively. Revenues generated from postpaid cellular service amounted to Php16,996 million in 2012, an increase of Php7,524 million, or 79%, as compared with Php9,472 million earned in 2011, and which was 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 Php6,207 million and Smart s higher postpaid cellular service revenues by Php1,317 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 Php9,856 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 Php7,607 million, or 17%, to Php51,492 million in 2012 from Php43,885 million in 2011, primarily due to an increase in DMPI s cellular voice revenue contribution, partially offset by a decrease in Smart s international and domestic call revenues. Cellular voice services was 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]	2011[2]	Increase (Decrease) Amount	%
		(in millions)		
Voice services:				
Domestic				
Inbound	Php 6,556	Php 4,963	Php 1,593	32
Outbound	28,533	22,442	6,091	27
	35,089	27,405	7,684	28
International				
Inbound	13,791	13,906	(115)	(1)
Outbound	2,612	2,574	38	1
	16,403	16,480	(77)	
Total	Php 51,492	Php 43,885	Php 7,607	17

(1) *Includes DMPI s cellular voice revenues of Php11,586 million of operations for the full year 2012.*

(2) *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 Php7,684 million, or 28%, to Php35,089 million in 2012 from Php27,405 million in 2011, primarily due to an increase in domestic outbound and inbound voice service revenues of Php6,091 million and Php1,593 million, respectively.

Revenues from domestic outbound voice service increased by Php6,091 million, or 27%, to Php28,533 million in 2012 from Php22,442 million in 2011 mainly due to an increase in DMPI s domestic outbound voice service revenue contribution by Php7,047 million, partially offset by the decrease in Smart s revenues from domestic outbound voice service on the back of lower traffic on standard and unlimited calls. Domestic outbound call volume of 48,340 million minutes, which includes DMPI s domestic outbound call volume of 14,804 million minutes, in 2012, increased by 8,583 million minutes, or 22%, from 39,757 million minutes, which includes DMPI s domestic outbound call volumes of 2,590 million minutes, in 2011.

Revenues from our domestic inbound voice service increased by Php1,593 million, or 32%, to Php6,556 million in 2012 from Php4,963 million in 2011 primarily due to an increase in DMPI s domestic inbound voice service revenue contribution by Php1,484 million and the increase in Smart s inbound voice revenues due to increased traffic originating from other domestic mobile carriers and a favorable traffic settlement adjustment partly offset by lower traffic originating from fixed line calls. Domestic inbound call volumes of 1,699 million minutes, which includes DMPI s domestic inbound call volumes of 422 million minutes, in 2012, increased by 349 million minutes, or 26%, from 1,350 million minutes, which includes DMPI s domestic inbound call volumes of 55 million minutes, in 2011.

International voice service revenues decreased by Php77 million to Php16,403 million in 2012 from Php16,480 million in 2011 primarily due to lower international inbound voice service revenues by Php115 million, or 1%, to Php13,791 million in 2012 from Php13,906 million in 2011, partially offset by an increase in international outbound voice service revenues by Php38 million, or 1%, to Php2,612 million in 2012 from Php2,574 million in 2011. The decrease in international voice service revenues was primarily due to the unfavorable effect on Smart s dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php42.24 for the year ended December 31, 2012 from Php43.31 for the year ended December 31, 2011, and Smart s lower international inbound voice traffic and inbound termination rates, partially offset by an increase in DMPI s international voice service revenue contribution by Php1,518 million. International inbound and outbound calls totaled 3,433 million minutes, which includes DMPI s international inbound and outbound call volume aggregating 532 million minutes, in 2012, an increase of 348 million minutes, or 11%, from 3,085 million minutes, which includes DMPI s international inbound and outbound call volumes of 36 million minutes, in 2011.

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Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, increased by Php6,039 million, or 13% to Php53,274 million in 2012 from Php47,235 million in 2011, which includes the increase in DMPI s cellular data service revenue contribution by Php6,014 million, partially offset by a decrease in Smart s text messaging revenues. Cellular data services was 50% of our cellular service revenues in each of the years 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[(2)]	Increase (Decrease) Amount	%
		(in millions)		
Text messaging				
Domestic	Php 44,568	Php 40,096	Php 4,472	11
Bucket-Priced/Unlimited	*28,752*	*23,164*	*5,588*	*24*
Standard	*15,816*	*16,932*	*(1,116)*	*(7)*
International	3,791	3,612	179	5
	48,359	43,708	4,651	11
Value-added services				
Internet-based[(3)]	3,121	1,707	1,414	83
Pasa Load/Give-a-load[(4)]	693	664	29	4
SMS-based[(5)]	614	652	(38)	(6)
MMS-based[(6)]	412	458	(46)	(10)
	4,840	3,481	1,359	39
Financial services	75	46	29	63
Total	Php 53,274	Php 47,235	Php 6,039	13

(1) *Includes DMPI s cellular data service revenues of Php7,234 million for the full year 2012.*

(2) *Includes DMPI s cellular data service revenues of Php1,220 million for the period from October 26, 2011 to December 31, 2011.*

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

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

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

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

Text messaging-related services contributed revenues of Php48,359 million in 2012, an increase of Php4,651 million, or 11%, as compared with Php43,708 million in 2011, and was 91% 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 Php5,386 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, primarily due to an increase in revenue contribution from DMPI s bucket-priced/unlimited plans by Php3,383 million and an increase in Smart s revenues from bucket-priced/unlimited SMS offers. Bucket-priced/unlimited text messages of 464,698 million, which includes DMPI s bucket-priced/unlimited text messages of 44,036 million, in

2012, increased by 142,110 million, or 44%, from 322,588 million, which includes DMPI s bucket-priced/unlimited text messages of 8,235 million, in 2011.

Standard text messaging revenues, which includes outbound standard SMS and domestic inbound SMS revenues, decreased by Php1,116 million, or 7%, to Php15,816 million in 2012 from Php16,932 million in 2011, primarily due to Smart s lower standard text messaging revenues on the back of increased preference for unlimited SMS offers, as well as the lower domestic inbound SMS revenues due to the NTC-mandated reduction in SMS interconnect charge, partially offset by an increase in DMPI s standard text messaging revenue contribution by Php1,738 million. On the other hand, standard text messages of 43,926 million, which includes DMPI s standard text messages of 11,584 million, in 2012, increased by 15,656 million, or 55%, from 28,270 million, which includes DMPI s standard text messages of 1,352 million, in 2011, on the back of increased domestic inbound SMS volume, which offset the decline in domestic outbound standard SMS volume.

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International text messaging revenues amounted to Php3,791 million in 2012, an increase of Php179 million, or 5%, from Php3,612 million in 2011 mainly due to an increase in DMPI s international text messaging revenue contribution by Php265 million 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 Smart s internet-based VAS, particularly from mobile internet browsing, and an increase in DMPI s VAS revenue contribution by Php628 million.

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 was 97% of our total subscriber base as at December 31, 2012 and 2011.

Our net subscriber activations 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	*(1,745,719)*	*1,279,694*	*(3,025,413)*	*(236)*
Talk N Text	*7,977,878*	*1,499,794*	*6,478,084*	*432*
Red Mobile(1)	*(1,204,349)*	*484,775*	*(1,689,124)*	*(348)*
Sun Cellular(2)	*790,935*	*338,759*	*452,176*	*133*
Postpaid	351,084	178,870	172,214	96
Smart	*132,943*	*128,910*	*4,033*	*3*
Red Mobile(1)	*(211)*	*263*	*(474)*	*(180)*
Sun Cellular(2)	*218,352*	*49,697*	*168,655*	*339*
Total	6,169,829	3,781,892	2,387,937	63

(1) *Activations have been discontinued since the fourth quarter of 2011 due to the transfer of the Red Mobile business from CURE to Smart which was completed on June 30, 2012.*

(2) *Activations for the year 2012 represents full year activations while activations for the year 2011 represents activations for the period from October 26, 2011 to December 31, 2011.*

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 in 2011, respectively.

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Our quarterly net subscriber activations (reductions) over the eight quarters in 2012 and 2011 were as follows:

	2012				2011			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	2,280,091	1,240,778	1,102,216	1,195,660	1,011,692	1,178,072	(144,404)	1,218,903
Smart Prepaid	*280,483*	*(565,803)*	*(1,309,926)*	*(150,473)*	*441,647*	*344,695*	*49,479*	*443,873*
Talk N Text	*1,692,727*	*1,832,998*	*2,531,860*	*1,920,293*	*433,157*	*376,960*	*(254,815)*	*944,492*
Red Mobile	*(538,635)*	*(337,450)*	*(162,326)*	*(165,938)*	*136,888*	*456,417*	*60,932*	*(169,462)*
Sun Cellular	*845,516*	*311,033*	*42,608*	*(408,222)*				
Postpaid	133,233	78,371	68,415	71,065	8,985	(224)	46,832	73,580
Smart	*66,573*	*24,862*	*16,901*	*24,607*	*8,835*	*(658)*	*46,992*	*73,741*
Red Mobile	*(96)*	*(28)*	*(50)*	*(37)*	*150*	*434*	*(160)*	*(161)*
Sun Cellular	*66,756*	*53,537*	*51,564*	*46,495*				
Total	2,413,324	1,319,149	1,170,631	1,266,725	1,020,677	1,177,848	(97,572)	1,292,483

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

	2012	2011
	(in %)	
Prepaid		
Smart Prepaid	6.0	5.1
Talk N Text	4.1	5.5
Red Mobile	15.1	17.4
Sun Cellular	10.8	10.0
Postpaid		
Smart	2.6	2.1
Red Mobile	11.2	30.3
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 *Red Mobile* prepaid subscribers were 15.1% and 17.4% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* prepaid subscribers were 10.8% and 10% in 2012 and 2011, respectively.

The average monthly churn rate for Smart s postpaid subscribers were 2.6% and 2.1% in 2012 and 2011, respectively. The average monthly churn rate for *Red Mobile* postpaid subscribers were 11.2% and 30.3% in 2012 and 2011, respectively. The average monthly churn rate for *Sun Cellular* postpaid subscribers was 1% 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]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2012	**2011**	**Amount**	**%**	**2012**	**2011**	**Amount**	**%**
Prepaid								
Smart Prepaid	Php 173	Php 198	(25)	(13)	Php 151	Php 173	(22)	(13)
Talk N Text	113	124	(11)	(9)	99	109	(10)	(9)
Red Mobile	71	38	33	87	62	33	29	88
Sun Cellular	79	75	4	5	69	65	4	6
Postpaid								
Smart	1,280	1,548	(268)	(17)	1,263	1,511	(248)	(16)
Red Mobile	363	373	(10)	(3)	363	373	(10)	(3)
Sun Cellular	418	450	(32)	(7)	416	447	(31)	(7)

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

(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income, but excluding inbound roaming revenues, net of discounts and content provider costs, by the average number of subscribers in the month. Net monthly ARPUs in 2011 have been restated to reflect the change in the presentation of our outbound revenues.*

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

	Prepaid								Postpaid					
	Smart Prepaid		**Talk N Text**		**Red Mobile**		**Sun Cellular[1]**		**Smart**		**Red Mobile**		**Sun Cellular[1]**	
	Gross[2]	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**	**Gross[2]**	**Net[3]**
2012														
First Quarter	178	155	118	104	46	40	75	64	1,302	1,279	339	339	414	411
Second Quarter	172	150	116	103	66	57	76	66	1,277	1,251	368	368	413	411
Third Quarter	167	145	109	95	72	61	78	69	1,264	1,262	375	375	411	408
Fourth Quarter	175	154	108	95	101	90	87	77	1,278	1,262	370	370	417	413
2011														
First Quarter	205	180	129	113	32	28			1,610	1,557	133	133		
Second Quarter	203	179	126	111	43	38			1,638	1,576	413	413		
Third Quarter	188	166	117	103	39	33			1,494	1,430	431	431		
Fourth Quarter	194	166	124	109	39	34			1,452	1,480	355	355		

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

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 Php1,708 million, or 25%, to Php8,512 million in 2012 from Php6,804 million in 2011, primarily due to an increase in DMPI s and SBI s revenue contribution by Php1,473 million and Php235 million, respectively, and 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*
SmartBroadband	1,231,092	1,162,020	69,072	6
Sun Cellular	356,068	200,972	155,096	77
Postpaid	*771,864*	*705,417*	*66,447*	*9*
SmartBroadband	495,802	454,333	41,469	9
Sun Cellular	276,062	251,084	24,978	10

SBI and *Sun Broadband Wireless*, DMPI s broadband service, 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.

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

SBI also offers mobile internet access through *SmartBro Plug-It,* a wireless modem and *SmartBro Pocket Wifi*, a portable wireless router which can be shared by up to five users at a time. Both provide instant connectivity at varying connectivity speeds in places where there is Smart network coverage provided by either 3G HSPA, 4G HSPA+ or LTE technology. *SmartBro Plug-It* and *SmartBro Pocket Wifi* are available in both postpaid and prepaid variants. SBI also offers unlimited internet surfing for *SmartBro Plug-It* and *Pocket Wifi Prepaid* subscribers. We also have an additional array of load packages that offer per minute-based charging and longer validity periods, as well as *Always On* packages, which offers volume over time-based buckets catering to subscribers with varying data surfing requirements.

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

Satellite and Other Services

Revenues from our satellite and other services decreased by Php52 million, or 3%, to Php1,568 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 as compared with 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 by Php396 million for 2012.

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Expenses

Expenses associated with our wireless business amounted to Php87,961 million in 2012, an increase of Php16,912 million, or 24%, from Php71,049 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, interconnection costs, repairs and maintenance, selling and promotions, rent, and amortization of intangible assets, partially offset by lower expenses related to asset impairment. As a percentage of our total wireless revenues, expenses associated with our wireless business was 74% 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]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Depreciation and amortization	Php 19,000	22	Php 14,295	20	Php 4,705	33
Interconnection costs	12,118	14	9,604	14	2,514	26
Rent	9,998	11	8,251	12	1,747	21
Compensation and employee benefits	9,131	10	5,248	7	3,883	74
Selling and promotions	7,933	9	6,144	9	1,789	29
Repairs and maintenance	7,843	9	5,643	8	2,200	39
Cost of sales	7,373	8	4,267	6	3,106	73
Asset impairment	4,218	5	9,197	13	(4,979)	(54)
Professional and other contracted services	3,744	4	3,176	5	568	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	Php 87,961	100	Php 71,049	100	Php 16,912	24

(1) *Includes DMPI s expenses of Php23,694 million for the full year 2012.*

(2) *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 contribution to depreciation and amortization expense by Php4,319 million and Smart s higher depreciable asset base.

Interconnection costs increased by Php2,514 million, or 26%, to Php12,118 million primarily due to the increase in DMPI s contribution to interconnection costs by Php2,607 million, partially offset by a decrease in interconnection charges on Smart s domestic SMS, and international voice and SMS roaming.

Rent expenses increased by Php1,747 million, or 21%, to Php9,998 million primarily due to the increase in DMPI s contribution to 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 10,440 cell sites, 18,337 cellular/mobile broadband base stations and 2,871 fixed wireless broadband-enabled base stations, as compared with 10,482 cell sites, 12,635 cellular/mobile broadband base stations and 2,786 fixed wireless broadband-enabled base stations in 2011.

Compensation and employee benefits expenses increased by Php3,883 million, or 74%, to Php9,131 million primarily due to the increase in DMPI s contribution to compensation and employee benefit expense by Php1,996 million, as well as higher salaries and employee benefits, LTIP and manpower rightsizing program, or MRP, costs, partially offset by lower provision for pension benefits of Smart. 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.

Selling and promotion expenses increased by Php1,789 million, or 29%, to Php7,933 million primarily due to the increase in DMPI s contribution to 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 contribution to 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 due to the increase in DMPI s contribution to 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 contribution to 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 Php568 million, or 18%, to Php3,744 million primarily due to the increase in DMPI s contribution to 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 contribution to 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 contribution to communication, training and travel expense by Php314 million and higher expenses related to freight and hauling, and training services, partially offset by lower travel expenses, communication charges and fuel consumption costs for executive vehicles.

Insurance and security services increased by Php186 million, or 22%, to Php1,033 million primarily due to the increase in DMPI s contribution to insurance and security expense by Php177 million, and higher insurance and bond premiums, partially offset by Smart s lower expenses on security services.

Amortization of intangible assets increased by Php813 million to Php921 million primarily due to the amortization of intangible assets related to customer list and franchise of DMPI in 2012.

Other expenses decreased by Php205 million, or 20%, to Php809 million primarily due to lower various business and operational-related expenses, partly offset by the increase in DMPI s contribution to other operational expenses by Php70 million.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) for the years ended December 31, 2012 and 2011:

	2012[1]	2011[2]	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Foreign exchange gains (losses) net	Php 2,419	(Php 720)	Php 3,139	436
Interest income	565	677	(112)	(17)
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	759	1,218	(459)	(38)
Total	Php 931	(Php 1,694)	Php 2,625	155

(1) *Includes DMPI s other income of Php569 million for the full year 2012.*
(2) *Includes DMPI s other expenses net of Php764 million for the period from October 26, 2011 to December 31, 2011.*

Our wireless business other income amounted to Php931 million in 2012, a change of Php2,625 million, or 155%, as against other expenses of Php1,694 million in 2011, primarily due to the combined effects of the following: (i) higher net foreign exchange gains by Php3,139 million on account of revaluation of net foreign currency-denominated liabilities due to the appreciation of the Philippine peso to the U.S. dollar, and the increase in DMPI s contribution to 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

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contribution to financing costs by Php633 million, and higher accretion on financial liabilities and financing charges; (iii) a decrease in equity share in net losses of associates by Php37 million; (iv) higher net loss on derivative financial instruments by Php41 million in 2012 mainly due to the increase in DMPI s contribution to net loss on derivative financial instruments; (v) 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 contribution to interest income by Php31 million; and (vi) a decrease in other income by Php459 million mainly due to lower rental and other miscellaneous income, the decrease in DMPI s contribution to other income contribution by Php79 million, partially offset by higher net gain on fixed assets disposal and outsourcing income.

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 receivables written off, partially offset by the expiration of SBI s tax holiday in July 2011. The effective tax rate for our wireless business was 25% and 27% in 2012 and 2011, respectively.

Net Income

As a result of the foregoing, our wireless business net income increased by Php2,102 million, or 9%, to Php24,468 million from Php22,366 million recorded in 2011.

Adjusted EBITDA

As a result of the foregoing, our wireless business Adjusted EBITDA decreased by Php960 million, or 2%, to Php54,433 million in 2012 from Php55,393 million in 2011.

Core Income

Our wireless business core income decreased by Php4,218 million, or 14%, to Php25,685 million in 2012 from Php29,903 million in 2011 on account of an increase in wireless-related operating and other expenses, partially offset by higher wireless revenues and lower provision for income tax.

Fixed Line

Revenues

Revenues generated from our fixed line business amounted to Php62,490 million in 2012, an increase of Php2,484 million, or 4%, from Php60,006 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)	**%**	**2011**(2) (in millions)	**%**	**Increase (Decrease) Amount**	**%**
Service Revenues:						
Local exchange	Php 16,483	26	Php 15,734	26	Php 749	5
International long distance	10,885	17	11,383	19	(498)	(4)
National long distance	5,272	9	5,711	9	(439)	(8)
Data and other network	25,735	41	23,155	39	2,580	11
Miscellaneous	2,888	5	2,802	5	86	3
	61,263	98	58,785	98	2,478	4

Non-Service Revenues:						
Sale of computers, phone units and SIM cards	1,227	2	1,221	2	6	
Total Fixed Line Revenues	Php 62,490	100	Php 60,006	100	Php 2,484	4

(1) *Includes Digitel s service revenues of Php3,265 million for the full year 2012.*

(2) *Includes Digitel s service revenues of Php706 million for the period from October 26, 2011 to December 31, 2011.*

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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 Php2,478 million, or 4%, to Php61,263 million in 2012 from Php58,785 million in 2011 due to an increase in the revenue contribution of our data and other network, local exchange and miscellaneous services, partially offset by decreases in international and national 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, 2012 and 2011:

	2012(1)	2011(2)	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 16,483	Php 15,734	Php 749	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) *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 Php749 million, or 5%, to Php16,483 million in 2012 from Php15,734 million in 2011, primarily due to an increase in Digitel s local exchange service revenue contribution by Php811 million and the increase in postpaid wired 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 27% in each of 2012 and 2011.

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

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)	2011(2)	Increase (Decrease) Amount	%
Total international long distance service revenues (in millions)	Php 10,885	Php 11,383	(Php 498)	(4)
Inbound	9,547	10,231	(684)	(7)
Outbound	1,338	1,152	186	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 Php688 million for the full year 2012.*

(2) *Includes Digitel s international long distance service revenue contribution of Php239 million for the period from October 26, 2011 to December 31, 2011.*

Our total international long distance service revenues decreased by Php498 million, or 4%, to Php10,885 million in 2012 from Php11,383 million in 2011, primarily due to the decrease in PLDT s call volumes, as well as the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php42.24 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, and the increase in average collection rate in dollar terms. The percentage contribution of international long distance service revenues to our total fixed line service revenues was 18% and 19% in 2012 and 2011, respectively.

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Our revenues from inbound international long distance service decreased by Php684 million, or 7%, to Php9,547 million in 2012 from Php10,231 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, 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 Php186 million, or 16%, to Php1,338 million in 2012 from Php1,152 million in 2011, primarily due to an increase in Digitel s revenue contribution from outbound international long distance service by Php332 million and the increase in the average collection rate in dollar terms, partially offset by the decrease in PLDT s outbound call volumes 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.

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:

			Decrease	
	2012(1)	**2011**(2)	**Amount**	**%**
Total national long distance service revenues (in millions)	Php 5,272	Php 5,711	(Php 439)	(8)
National long distance call volumes (in million minutes)	971	1,126	(155)	(14)

(1) *Includes Digitel s national long distance service revenue contribution of Php346 million and call volume of 39 million minutes for the full year 2012.*

(2) *Includes Digitel s national long distance service revenue contribution of Php68 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 Php439 million, or 8%, to Php5,272 million in 2012 from Php5,711 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 Php278 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 8% and 10% in 2012 and 2011, respectively.

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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]	2011[2]	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php 25,735	Php 23,155	Php 2,580	11
Domestic	18,682	16,647	2,035	12
Broadband	*11,640*	*9,940*	*1,700*	*17*
DSL	11,405	9,664	1,741	18
WeRoam	235	276	(41)	(15)
Leased Lines and Others	*7,042*	*6,707*	*335*	*5*
International				
Leased Lines and Others	*5,679*	*5,358*	*321*	*6*
Vitro™ Data Center	1,374	1,150	224	19
Subscriber base				
Broadband	*903,860*	*859,960*	*43,900*	*5*
DSL	887,399	842,273	45,126	5
WeRoam	16,461	17,687	(1,226)	(7)
SWUP	*22,720*	*20,153*	*2,567*	*13*

(1) *Includes Digitel s data and other network service revenue contribution of Php1,242 million for the full year 2012 and DSL subscribers of 74,921 as at December 31, 2012.*

(2) *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 99,367 as at December 31, 2011.*

Our data and other network services posted revenues of Php25,735 million in 2012, an increase of Php2,580 million, or 11%, from Php23,155 million in 2011, primarily due to higher revenues from *PLDT DSL*, the increase in Digitel s data and other network service revenue contribution by Php1,021 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 Php18,682 million in 2012, an increase of Php2,035 million, or 12%, as compared with Php16,647 million in 2011 mainly due to higher DSL revenues and an increase in Digitel s revenue contribution by Php1,003 million in 2012, higher IP-VPN, Metro Ethernet and *Shops.Work* subscribers as customer locations and bandwidth requirements continued to expand and demand for offshoring, outsourcing services increased, partially offset by lower traditional leased line revenues on Diginet. The percentage contribution of domestic data service revenues to total data and other network services was 73% and 72% in 2012 and 2011, respectively.

Broadband

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

Broadband data revenues amounted to Php11,640 million in 2012, an increase of Php1,700 million, or 17%, from Php9,940 million in 2011, primarily due to the higher revenue contribution of DSL which contributed revenues of Php11,405 million in 2012 from Php9,664 million in 2011 as a result of the increase in the number of subscribers by 5% to 903,860 subscribers, including Digitel s DSL subscriber base of 74,921, as at December 31, 2012, from 859,960 subscribers, which includes Digitel s subscriber base of 99,367, as at December 31, 2011. DSL revenues was 44% and 42% of total data and other network service revenues in 2012 and 2011, respectively.

WeRoam revenues amounted to Php235 million in 2012, a decrease of Php41 million, or 15%, from Php276 million in 2011 as a result of a decrease in subscriber base by 7% to 16,461 subscribers in 2012 from 17,687 subscribers in 2011.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart s fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *SWUP*, our wireless VPN service that powers mobile point-of-sale terminals and off-site bank ATMs, as well as other retail outlets located in remote areas. As at 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 Php7,042 million in 2012, an increase of Php335 million, or 5%, from Php6,707 million in 2011, primarily due to an increase in Digitel s leased line data revenue contribution by Php376 million, and higher revenues from IP-VPN, Metro Ethernet and *Shops.Work*, partially offset by lower Diginet revenues. The percentage contribution of leased lines and other data service revenues to the total data and other network services was 28% and 29% 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, such as AT&T, BT-Infonet, NTT Arcstar, Orange Business, SingTel, Tata, Telstra, Verizon Business, among others, which provide data networking services to multinational companies. International data service revenues increased by Php321 million, or 6%, to Php5,679 million in 2012 from Php5,358 million in 2011, primarily due to higher i-Gate, and inland-cable lease revenues, and an increase in Digitel s international leased line data revenue contribution by Php18 million, as well as an increase in revenues from various global service providers, partially offset by the unfavorable effect of the appreciation of the Philippine peso relative to the U.S. dollar. The percentage contribution of international data service revenues to total data and other network service revenues was 22% and 23% in 2012 and 2011, respectively.

Vitro™ Data Center

Vitro™ data center provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls. Data center revenues increased by Php224 million, or 19%, to Php1,374 million in 2012 from Php1,150 million in 2011 mainly due to higher co-location and managed services.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from rental and facilities management fees, internet and online gaming, and directory advertising. These service revenues increased by Php86 million, or 3%, to Php2,888 million in 2012 from Php2,802 million in 2011 mainly due to the effect of the inclusion in the consolidation of the financial results of ePDS (ePLDT increased its equity interest in ePDS from 50% to 67% effective August 24, 2011), the revenue contribution of PGNL, 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, partially offset by 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. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 5% in each of 2012 and 2011.

Non-service Revenues

Non-service revenues increased by Php6 million to Php1,227 million in 2012 from Php1,221 million in 2011, primarily due to increases in hardware and software licenses, *Telpad* units and UNO equipments sold, partially offset by lower computer-bundled sales, sales of several managed PABX and *On Call* solutions and *PLP* units.

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Expenses

Expenses related to our fixed line business totaled Php55,555 million in 2012, an increase of Php4,935 million, or 10%, as compared with Php50,620 million in 2011. The increase was primarily due to higher expenses related to compensation and employee benefits, repairs and maintenance, professional and other contracted services, 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, amortization of intangible assets, and communication, training and travel. As a percentage of our total fixed line revenues, expenses associated with our fixed line business was 89% 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:

	2012[1]	%	2011[2]	%	Increase (Decrease) Amount	%
			(in millions)			
Compensation and employee benefits	Php 13,937	25	Php 9,855	20	Php 4,082	41
Depreciation and amortization	13,354	24	13,244	26	110	1
Interconnection costs	8,120	15	8,471	17	(351)	(4)
Repairs and maintenance	5,460	10	5,116	10	344	7
Professional and other contracted services	4,351	8	4,043	8	308	8
Rent	2,947	5	2,689	5	258	10
Selling and promotions	1,786	3	1,665	3	121	7
Cost of sales	1,374	3	1,178	2	196	17
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	771	1	780	2	(9)	(1)
Insurance and security services	632	1	577	1	55	10
Amortization of intangible assets			32		(32)	(100)
Other expenses	658	1	648	1	10	2
Total	Php 55,555	100	Php 50,620	100	Php 4,935	10

(1) *Includes Digitel s expenses of Php3,219 million for the full year 2012.*

(2) *Includes Digitel s expenses of Php726 million for the period from October 26, 2011 to December 31, 2011.*

Compensation and employee benefits expenses increased by Php4,082 million, or 41%, to Php13,937 million primarily due to higher MRP costs, salaries and employee benefits, LTIP costs, as well as the increase in Digitel s contribution to compensation and employee benefits expense by Php772 million, partially offset by lower provision for pension costs. Employee headcount decreased to 10,462 in 2012 as compared with 11,409 in 2011 mainly due to a decrease in PLDT s and Digitel s headcounts as a result of the MRP, partially offset by an increase in the number of employee headcount of iPlus.

Depreciation and amortization charges increased by Php110 million, or 1%, to Php13,354 million due to the increase in Digitel s contribution to depreciation and amortization expense by Php435 million, partly offset by PLDT s lower depreciable asset base.

Interconnection costs decreased by Php351 million, or 4%, to Php8,120 million primarily due to lower international and national long distance interconnection/settlement costs as a result of lower international received paid and domestic sent paid calls that terminated to other domestic carriers, and lower settlement costs for data and other network services particularly Fibernet and Infonet, partially offset by the increase in Digitel s contribution to interconnection costs by Php389 million.

Repairs and maintenance expenses increased by Php344 million, or 7%, to Php5,460 million primarily due to the increase in Digitel s contribution to repairs and maintenance expense by Php385 million, higher repairs and maintenance costs for buildings, IT software, and office electricity cost, partially offset by lower repairs and maintenance costs on central office/telecoms equipment, site fuel consumption, and vehicles, furnitures and other work equipment.

Professional and other contracted service expenses increased by Php308 million, or 8%, to Php4,351 million primarily due to 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 Php146 million, partially offset by lower consultancy and bill printing fees.

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Rent expenses increased by Php258 million, or 10%, to Php2,947 million primarily due to the increase in Digitel s contribution to rent expense by Php146 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.

Selling and promotion expenses increased by Php121 million, or 7%, to Php1,786 million primarily due to the increase in Digitel s contribution to selling and promotions expense by Php11 million, as well as higher advertising expenses, partially offset by lower public relations and commissions expense.

Cost of sales increased by Php196 million, or 17%, to Php1,374 million primarily due to the increase in Digitel s contribution to cost of sales by Php32 million and an increase in the sale of *Telpad* units, partially offset by lower sales of several managed PABX and *OnCall* solutions, and *PLP* units.

Taxes and licenses decreased by Php222 million, or 17%, to Php1,097 million as a result of lower real property taxes and NTC license fees, partly offset by the increase in Digitel s contribution to taxes and license expense by Php39 million.

Asset impairment increased by Php65 million, or 6%, to Php1,068 million mainly due to the increase in Digitel s contribution to asset impairment charge by Php45 million, partially offset by lower provision for uncollectible receivables mainly by Philcom.

Communication, training and travel expenses decreased by Php9 million, or 1%, to Php771 million mainly due to a decrease in foreign travel, mailing and courier, and fuel consumption charges, partially offset by higher local training and travel, and the increase in Digitel s contribution to communication, training and travel expense by Php36 million.

Insurance and security services increased by Php55 million, or 10%, to Php632 million primarily due to higher office security services, and the increase in Digitel s contribution to insurance and security expense by Php43 million, partially offset by lower expenses insurance and bond premiums.

Amortization of intangible assets amounted to Php32 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 Php658 million primarily due to higher various business and operational-related expenses and the increase in Digitel s contribution to other expense by Php14 million.

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]	2011[2]	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Interest income	Php 883	Php 590	Php 293	50
Foreign exchange gains (losses) net	863	(15)	878	5,853
Equity share in net earnings of associates	108	307	(199)	(65)
Gains (losses) on derivative financial instruments net	(1,958)	211	(2,169)	(1,028)
Financing costs net	(4,363)	(3,710)	(653)	18
Others	2,914	2,024	890	44
Total	(Php 1,553)	(Php 593)	(Php 960)	162

(1) *Includes Digitel s other income of Php2,414 million for the full year 2012.*

(2) *Includes Digitel s other expenses of Php2,240 million for the period from October 26, 2011 to December 31, 2011.*

Our fixed line business other expenses amounted to Php1,553 million in 2012, an increase of Php960 million, or 162%, from Php593 million in 2011. The change 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 Php653

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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 Php83 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 Php293 million due to a higher principal amount of placements and the increase in Digitel s contribution to interest income by Php27 million, partially offset by lower average interest rates, shorter average tenor of placements, and the impact of the appreciation of the Philippine peso on dollar placements; (v) increase in net foreign exchange gains by Php878 million due to the 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 Php890 million mainly due to 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, pension benefit income recognized by PLDT and lower income from consultancy.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php89 million in 2012, a change of Php2,580 million, or 104%, as against provision for income tax of Php2,491 million in 2011, primarily due to lower taxable income.

Net Income

As a result of the foregoing, our fixed line business contributed a net income of Php5,471 million in 2012, decreased by Php831 million, or 13%, as compared with Php6,302 million in 2011.

Adjusted EBITDA

As a result of the foregoing, our fixed line business Adjusted EBITDA decreased by Php2,371 million, or 10%, to Php20,304 million in 2012 from Php22,675 million in 2011.

Core Income

Our fixed line business core income increased by Php322 million, or 6%, to Php6,087 million in 2012 from Php5,765 million in 2011, primarily as a result of higher fixed line revenues, decrease in provision for income tax and other expenses, partially offset by higher fixed line operating expenses.

Business Process Outsourcing

Revenues

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

Our BPO business generated revenues of Php9,899 million in 2012, an increase of Php1,311 million, or 15%, as compared with Php8,588 million in 2011. This increase was primarily due to higher revenue contributions from our knowledge processing solutions and customer relationship management businesses.

The following table summarizes our total revenues from our BPO business for the years ended December 31, 2012 and 2011 by service segment:

	2012	%	2011 (in millions)	%	Increase Amount	%
Service Revenues:						
Knowledge processing solutions	Php 6,594	67	Php 5,721	67	Php 873	15
Customer relationship management	3,305	33	2,867	33	438	15
Total BPO Revenues	Php 9,899	100	Php 8,588	100	Php 1,311	15

Service Revenues

Service revenues generated by our BPO business amounted to Php9,899 million in 2012, an increase of Php1,311 million, or 15%, as compared with Php8,588 million in 2011, primarily as a result of the continued growth in our knowledge processing solutions and customer relationship management businesses.

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Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Our knowledge processing solutions business contributed revenues of Php6,594 million in 2012, an increase of Php873 million, or 15%, from Php5,721 million in 2011. Dollar-denominated revenues increased by 18% mainly due to higher content services and additional revenues as a result of the inclusion of Laserwords Private Ltd., or Laserwords, in the consolidation effective November 1, 2011, partially offset by the sale of our medical transcription business on September 26, 2011 and the appreciation of the Philippine peso to the U.S. dollar by approximately 2%. Knowledge processing solutions business revenues was 67% of total revenues of our BPO business in each of 2012 and 2011.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. In 2012, SPi CRM changed its functional currency from Philippine peso to U.S. dollar. Revenues relating to our customer relationship management business increased by Php438 million, or 15%, to Php3,305 million in 2012 from Php2,867 million in 2011, primarily due to higher domestic sales by 19%, partially offset by the effect of the appreciation of the Philippine peso to the U.S. dollar and lower revenues from Infocom due to the transfer of part of its services to PLDT. In total, we own and operate 6,200 seats with an average of 3,709 customer service representatives, or CSRs, in 2012, as compared with 5,959 seats with an average of 3,360 CSRs in 2011. SPi CRM had six customer relationship management sites as at December 31, 2012 and 2011. Customer relationship management business revenues was 33% of total revenues of our BPO business in each of 2012 and 2011.

Expenses

Expenses associated with our BPO business totaled Php8,478 million in 2012, an increase of Php880 million, or 12%, as compared with Php7,598 million in 2011, primarily due to higher expenses related to compensation and employee benefits, professional and other contracted services, repairs and maintenance, communication, training and travel, depreciation and amortization, selling and promotions, amortization of intangible assets and rent. As a percentage of our total BPO revenues, expenses related to our BPO business was 86% and 88% in 2012 and 2011, respectively.

					Increase (Decrease)	
	2012	%	2011 (in millions)	%	Amount	%
Compensation and employee benefits	Php 5,513	65	Php 5,062	67	Php 451	9
Professional and other contracted services	672	8	538	7	134	25
Repairs and maintenance	470	6	379	5	91	24
Depreciation and amortization	466	5	418	5	48	11
Rent	447	5	423	6	24	6
Communication, training and travel	403	5	344	4	59	17
Amortization of intangible assets	180	2	147	2	33	22
Selling and promotions	78	1	40		38	95
Insurance and security services	63	1	58	1	5	9
Taxes and licenses	43		43	1		
Asset impairment	3		9		(6)	(67)
Other expenses	140	2	137	2	3	2
Total	Php 8,478	100	Php 7,598	100	Php 880	12

Compensation and employee benefits increased by Php451 million, or 9%, to Php5,513 million mainly due to higher salaries and benefits, LTIP and provision for pension costs, partially offset by a decline in MRP costs. BPO employee headcount increased by 3,101, or 21%, to 17,765 in 2012 as compared with 14,664 in 2011.

Professional and other contracted services increased by Php134 million, or 25%, to Php672 million primarily due to higher contracted service, consultancy and other professional fees.

Repairs and maintenance expenses increased by Php91 million, or 24%, to Php470 million primarily due to higher office and site electricity charges, and repairs and maintenance costs for vehicles, furniture and other work equipment, and janitorial services, partially offset by lower repairs and maintenance cost of IT software and site facilities.

Depreciation and amortization increased by Php48 million, or 11%, to Php466 million primarily due to higher depreciable asset base.

Rent expenses increased by Php24 million, or 6%, to Php447 million primarily due to higher office building rental charges, partially offset by lower site rental charges.

Communication, training and travel expenses increased by Php59 million, or 17%, to Php403 million primarily due to higher travel and training expenses, and mailing and courier charges, partially offset by lower freight and hauling charges.

Amortization of intangible assets increased by Php33 million, or 22%, to Php180 million primarily due to higher amortization of intangible assets in 2012.

Selling and promotions expenses increased by Php38 million, or 95%, to Php78 million primarily due to higher spending on advertising and promotions, as well as higher commissions expenses.

Insurance and security services increased by Php5 million, or 9%, to Php63 million primarily due to higher expenses on office security, and insurance and bond premiums.

Taxes and licenses remained flat at Php43 million due to business-related taxes in 2012 and 2011.

Asset impairment decreased by Php6 million, or 67%, to Php3 million primarily due to lower provision for uncollectible receivables.

Other expenses increased by Php3 million, or 2%, to Php140 million mainly due to higher various business operational-related costs.

Other Income

The following table summarizes the breakdown of our total BPO-related other income for the years ended December 31, 2012 and 2011:

			Change	
	2012	**2011**[1]	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Gains (losses) on derivative financial instruments net	Php 28	(Php 4)	Php 32	800
Interest income	16	15	1	7
Financing costs	(24)	(37)	13	(35)
Foreign exchange losses net	(39)	(9)	(30)	333
Others	155	147	8	5
Total	Php 136	Php 112	Php 24	21

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

Our BPO business other income amounted to Php136 million in 2012, an increase of Php24 million, or 21%, from Php112 million in 2011, primarily due to the combined effects of the following: (i) net gains on derivative financial instruments of Php28 million in 2012 as against a net loss on derivative financial instruments of Php4 million due to mark-to-market gains from forward foreign exchange contracts; (ii) a decrease in financing costs by Php13 million due to payment of contingent liabilities and related interests in 2011 from our knowledge processing solutions business; (iii) an increase in other income by Php8 million mainly due to higher reversal of prior year provisions and rental income; (iv) an increase in interest income by Php1 million due to higher interest earned; and (v) an increase in net foreign exchange losses by Php30 million due to the revaluation of net foreign currency-denominated liabilities as a result of the effect of the higher level of appreciation of the Philippine peso to the U.S. dollar in 2012.

Provision for Income Tax

Provision for income tax amounted to Php428 million, an increase of Php310 million, or 263%, in 2012 from Php118 million in 2011, primarily due to higher taxable income in 2012, expiration of income tax holiday of a subsidiary of SPi and the inclusion of provision for income tax of Laserwords in 2012.

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Net Income

As a result of the foregoing, our BPO business registered a net income of Php1,129 million in 2012, an increase of Php145 million, or 15%, from Php984 million in 2011.

Adjusted EBITDA

As a result of the foregoing, our BPO business Adjusted EBITDA increased by Php509 million, or 33%, to Php2,067 million in 2012 from Php1,558 million in 2011.

Core Income

Our BPO business core income amounted to Php1,137 million in 2012, an increase of Php231 million, or 25%, as compared with Php906 million in 2011 mainly as a result of an increase in BPO revenues and other income, partially offset by an increase in BPO-related expenses and higher provision for income tax.

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[1]	Change Amount	Change %
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php 1,508	Php 1,843	(Php 335)	(18)
Interest income	76	90	(14)	(16)
Others	2,774	65	2,709	4,168
Total	Php 4,358	Php 1,998	Php 2,360	118

[1] *The 2011 results have been restated to reflect the implementation of the reorganization of our business segments.*

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.

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Adjusted EBITDA

As a result of the foregoing, negative Adjusted 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.

2011 Compared to 2010

On a Consolidated Basis

Revenues

We reported consolidated revenues, including revenues from discontinued operations, of Php156,603 million in 2011, a decrease of Php1,784 million, or 1%, as compared with Php158,387 million in 2010, primarily due to a decline in our service revenues by Php2,212 million as a result of decreases in cellular and satellite revenues from our wireless business, and national long distance and local exchange services from our fixed line business. These were partially offset by higher revenues from data and other network services, as well as the higher revenue contribution of our BPO 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]	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php 103,538	66	Php 105,381	67	(Php 1,843)	(2)
Fixed line	60,006	38	60,158	38	(152)	
BPO	8,588	6	8,112	5	476	6
Inter-segment transactions	(15,529)	(10)	(15,264)	(10)	(265)	2
Consolidated	Php 156,603	100	Php 158,387	100	(Php 1,784)	(1)

(1) 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, including expenses from discontinued operations, increased by Php10,551 million, or 10%, to Php113,382 million in 2011 from Php102,831 million in 2010, largely as a result of higher asset impairment, selling and promotions, depreciation and amortization, taxes and licenses, repairs and maintenance, professional and other contracted services, and cost of sales, partly offset by decreases in compensation and employee benefits, 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]	**%**	**2010**	**%**	**Amount**	**%**
			(in millions)			

Wireless	Php 71,049	62	Php 59,807	58	Php 11,242	19
Fixed line	50,620	45	50,243	49	377	1
BPO	7,598	7	8,481	8	(883)	(10)
Others	11		19		(8)	(42)
Inter-segment transactions	(15,896)	(14)	(15,719)	(15)	(177)	1
Consolidated	Php 113,382	100	Php 102,831	100	Php 10,551	10

(1) *Includes the Digitel Group s expenses of Php3,785 million for the period from October 26, 2011 to December 31, 2011.*

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Other Expenses

Consolidated other expenses, including expenses from discontinued operations, amounted to Php544 million in 2011, which includes other expenses from the Digitel Group of Php942 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) net gains on derivative financial instruments of Php197 million in 2011 as against net losses on derivative financial instruments of Php1,741 million in 2010 mainly 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; (ii) an increase in other income by Php934 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) net increase in equity share in net earnings of associates and joint ventures by Php627 million; (iv) a decrease in net financing costs by Php207 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) higher interest income by Php172 million due 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; and (vi) net foreign exchange losses of Php744 million in 2011 as against net foreign exchange gains of Php1,807 million in 2010 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.

The following table shows the breakdown of our consolidated other expenses by business segment for the years ended December 31, 2011 and 2010:

	2011[1]	%	2010 (in millions)	%	Change Amount	Change %
Wireless	(Php 1,694)	311	(Php 136)	7	(Php 1,558)	1,146
Fixed line	(593)	109	(2,694)	144	2,101	(78)
BPO	112	(21)	43	(2)	69	160
Others	1,998	(367)	1,371	(73)	627	46
Inter-segment transactions	(367)	68	(455)	24	88	(19)
Consolidated	(Php 544)	100	(Php 1,871)	100	(Php 1,327)	(71)

[1] *Includes the Digitel Group s other expenses of Php942 million for the period from October 26, 2011 to December 31, 2011.*

Net Income

Consolidated net income, including net income from discontinued operations, decreased by Php8,622 million, or 21%, to Php31,637 million in 2011, from Php40,259 million in 2010. The decrease was mainly due to the combined effects of the following: (i) a decrease in consolidated revenues by Php1,784 million; (ii) an increase in consolidated expenses by Php10,551 million; (iii) a decrease in consolidated other expenses by Php1,327 million; and (iv) a decrease in consolidated provision for income tax by Php2,386 million, which was mainly due to lower taxable income from our wireless business. Our consolidated basic and diluted EPS decreased to Php163.24 and 163.10, respectively, in 2011 from consolidated basic and diluted EPS of 212.85 in 2010. Our weighted average number of outstanding common shares was approximately 191.4 million and 186.8 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]	%	2010 (in millions)	%	Change Amount	%
Wireless	Php 22,366	71	Php 34,025	85	(Php 11,659)	(34)
Fixed line	6,302	20	5,145	13	1,157	22
BPO	984	3	(262)	(1)	1,246	476
Others	1,985	6	1,351	3	634	47
Consolidated	Php 31,637	100	Php 40,259	100	(Php 8,622)	(21)

[1] *Includes the Digitel Group s net loss of Php606 million for the period from October 26, 2011 to December 31, 2011.*

Adjusted EBITDA

Our consolidated Adjusted EBITDA, including Adjusted EBITDA from discontinued operations, was Php79,959 million in 2011, a decrease of Php3,758 million, or 4%, as compared with Php83,717 million in 2010, primarily due to a decline in service revenues from our wireless business, and higher operating expenses driven primarily by higher selling and promotions expenses, taxes and licenses, repairs and maintenance, and professional and other contracted services, and higher provision for uncollectible receivables.

The following table shows the breakdown of our consolidated Adjusted EBITDA by business segment for the years ended December 31, 2011 and 2010:

	2011[1]	%	2010 (in millions)	%	Change Amount	%
Wireless	Php 55,393	69	Php 58,964	70	(Php 3,571)	(6)
Fixed line	22,675	28	23,047	28	(372)	(2)
BPO	1,558	2	1,270	2	288	23
Others	(11)		(19)		8	(42)
Inter-segment transactions	344	1	455		(111)	(24)
Consolidated	Php 79,959	100	Php 83,717	100	(Php 3,758)	(4)

[1] *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, was Php39,035 million in 2011, which includes a loss from the Digitel Group of Php9 million for the period from October 26, 2011 to December 31, 2011, a decrease of Php2,993 million, or 7%, as compared with Php42,028 million in 2010, primarily due to a decrease in consolidated revenues and an increase in consolidated expenses, partially offset by decreases in consolidated other expenses and consolidated provision for income tax. Our consolidated basic and diluted core EPS also decreased to Php201.58 and Php201.41, respectively, in 2011 from Php212.85 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]	%	2010	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless	Php 29,903	77	Php 33,352	79	(Php 3,449)	(10)
Fixed line	5,765	15	5,845	14	(80)	(1)
BPO	906	2	765	2	141	18
Others	2,461	6	2,066	5	395	19
Consolidated	Php 39,035	100	Php 42,028	100	(Php 2,993)	(7)

(1) *Includes the Digitel Group s negative core income of Php9 million for the period from October 26, 2011 to December 31, 2011.*

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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	%
			(in millions)			
Service Revenues:						
Cellular	Php 93,645	90	Php 95,520	91	(Php 1,875)	(2)
Wireless broadband, 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 subscriber identification module, or SIM,-packs and broadband data modems	1,469	1	1,357	1	112	8
Total Wireless Revenues	Php 103,538	100	Php 105,381	100	(Php 1,843)	(2)

(1) Includes DMPI s revenue contribution of Php3,184 million for the period from October 26, 2011 to December 31, 2011.

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 was 92% of our wireless service revenues in 2011 and 2010.

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The following table shows the breakdown of our cellular service revenues for the years ended December 31, 2011 and 2010:

	2011[1]	2010	Increase (Decrease) Amount	%
		(in millions)		
Cellular service revenues	Php 93,645	Php 95,520	(Php 1,875)	(2)
By service type	*91,120*	*92,914*	*(1,794)*	*(2)*
Prepaid	81,648	84,385	(2,737)	(3)
Postpaid	9,472	8,529	943	11
By component	*91,120*	*92,914*	*(1,794)*	*(2)*
Voice	43,885	45,678	(1,793)	(4)
Data	47,235	47,236	(1)	
Others[2]	*2,525*	*2,606*	*(81)*	*(3)*

[1] *Includes DMPI s cellular service revenues of Php2,808 million for the period from October 26, 2011 to December 31, 2011.*

[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:

	2011	2010	Increase (Decrease) 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	*26,573,137*	*25,293,443*	*1,279,694*	*5*
Talk N Text	*20,467,175*	*18,967,381*	*1,499,794*	*8*
Red Mobile	*1,438,384*	*953,609*	*484,775*	*51*
Sun Cellular[1]	*13,314,096*		*13,314,096*	
Postpaid	1,903,837	421,575	1,482,262	352
Smart	*550,485*	*421,575*	*128,910*	*31*
Red Mobile[2]	*263*			