

PHILIPPINE LONG DISTANCE TELEPHONE CO

Form 20-F

March 30, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 20-F**

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

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010
OR**

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

**o 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.

11.375% Notes due 2012

8.350% Notes due 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, 2010:

186,756,438 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

441,887,387 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos 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 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

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 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 (or 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 Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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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 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, translations 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 Php43.81 to US\$1.00 on December 31, 2010. On March 29, 2011, the volume weighted average exchange rate quoted was Php43.53 to US\$1.00.

In this report, each reference to:

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

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

ADRs mean American Depositary Receipts;

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;

ARPU means average revenue per user;

BayanTel means Bayan Telecommunication, Inc.;

BayanTrade means BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), a 93.5%-owned subsidiary of ePLDT;

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;

BOW means Blue Ocean Wireless, a 51.0%-owned subsidiary of SCH;

BPO means business process outsourcing;

BSP means Bangko Sentral ng Pilipinas;

BTS means base transceiver station;

CBA means collective bargaining agreement;

CG Manual means PLDT Manual on Corporate Governance;

CGO means Corporate Governance Office;

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

CMTS means cellular mobile telephone system;

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

CPCN means Certificate of Public Convenience and Necessity;

CSRs mean 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;

Digital Paradise means Digital Paradise, Inc., a 75.0%-owned subsidiary of ePLDT;

Digitel means Digital Telecommunications Philippines, Inc.;

DSL means digital subscriber line;

ECC means the Executive Compensation Committee;

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

First Pacific means First Pacific Company Limited;

First Pacific Group means First Pacific and its affiliates;

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

FPHC means First Philippine 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 ePLDT;

IP means internet protocol;

ISP means internet service providers;

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

LEC means local exchange carrier;

Level Up! means Level Up!, Inc., a 57.5%-owned subsidiary of ePLDT;

LTIP means long-term incentive plan;

Mabuhay Satellite means Mabuhay Satellite Corporation, a 67.0%-owned subsidiary of PLDT;

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

Meralco means Manila Electric Company;

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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.;

Parlance means Parlance Systems, Inc., merged with SPi CRM and Vocativ on April 8, 2010, wherein SPi CRM is the surviving entity;

PCD means PCD Nominee Corporation;

PCEV means PLDT Communications and Energy Ventures, Inc., (formerly known as Pilipino Telephone Corporation, or Piltel), a 99.5%-owned subsidiary of Smart;

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

PFRS means Philippine Financial Reporting Standards;

PGCI means Philippine Global Communications, Inc.;

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.;

PTIC means Philippine Telecommunications Investment Corporation;

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

SCH means SmartConnect Holdings Pte. Ltd., a wholly-owned subsidiary of Smart;

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

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;

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SMS means short messaging service;

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

SPi CRM means SPi CRM Inc., (formerly known as ePLDT Ventus, Inc., or Ventus), the surviving entity of a merger with Vocativ and Parlance on April 8, 2010, a wholly-owned subsidiary of ePLDT;

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

SPi Group means SPi and its subsidiaries;

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;

TSI means Telecoms Solutions, Inc., a wholly-owned subsidiary of SMHC;

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

VAS means value-added service;

VAT means value-added tax;

Vocativ means Vocativ Systems, Inc., merged with SPi CRM and Parlance on April 8, 2010, wherein SPi CRM became the surviving entity;

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; and

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

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.

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PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as at December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008, included in this annual report on Form 20-F have been prepared in conformity with IFRS. We adopted IFRS effective as at and for the fiscal year ended December 31, 2007 by applying *IFRS 1: First-Time Adoption of International Financial Reporting Standards*. Our consolidated financial statements as at and for the year ended December 31, 2006 were originally prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and were restated in accordance with IFRS for comparative purposes only.

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.

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.

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. 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 also a supplemental disclosure because our management believes that it is widely used by investors in their analysis of the performance of PLDT and to assist them in their comparison of PLDT's performance with that of other companies in the technology, media and telecommunications sector. We also present 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 EBITDA as a supplement to financial measures in accordance with IFRS or GAAP in the United States. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with 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, 2010, 2009 and 2008 is presented in Item 5. Operating Financial Review and Prospects Management's Financial Review and Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18.

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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, 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. The core income results are monitored by the management for each business unit separately for purposes of making decisions about resource allocation and performance assessment. Also, core income is used by the management as a basis of determining the level of dividend payouts to shareholders and basis of granting incentives to employees. Core income should not be considered as an alternative to income before income tax or net income determined in accordance with 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 non-recurring 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, 2010, 2009 and 2008 is presented in Item 5. Operating Financial Review and Prospects Management's Financial Review and Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18.

Selected Financial Data

The selected consolidated financial information below as at December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008, should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in Item 18 in this annual report. As disclosed above under Presentation of Financial Information, our consolidated financial statements as at and for the years ended December 31, 2010, 2009, 2008 and 2007 have been prepared and presented in conformity with IFRS and our consolidated financial statements for the year ended December 31, 2006, which were originally prepared in accordance with U.S. GAAP, have been restated in accordance with IFRS for comparative purposes only.

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	2010 ⁽¹⁾	2010	2009	2008	2007	2006
	(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:						
Revenues	US\$ 3,297	Php 144,459	Php 147,993	Php 145,837	Php 138,704	Php 127,508
Service revenues	3,247	142,242	145,567	142,873	135,478	124,988
Non-service revenues	51	2,217	2,426	2,964	3,226	2,520
Expenses	2,029	88,903	90,111	85,786	83,587	82,003
Net income for the year	919	40,259	40,095	34,976	39,274	32,581
Earnings per common share for the year attributable to equity holders of PLDT						
Basic	4.86	212.85	210.38	179.96	205.84	173.10
Diluted	4.86	212.85	210.36	179.95	204.88	173.01
Balance Sheets Data:						
Cash and cash equivalents	837	36,678	38,319	33,684	17,447	16,870
Total assets	6,341	277,815	280,148	252,558	240,158	241,904
Total long-term debt net of current portion	1,732	75,879	86,066	58,899	53,372	63,769
Total debt ⁽²⁾	2,046	89,646	98,729	73,911	60,640	80,154
Total liabilities	4,118	180,430	181,023	145,589	127,813	139,052
Total equity	2,223	97,385	99,125	106,969	112,345	102,853
Weighted average number of common shares for the year (in thousands)		186,790	186,916	188,163	188,656	184,456
Other Data:						
Depreciation and amortization	600	26,277	25,607	24,709	28,613	31,869
Ratio of earnings to fixed charges ⁽³⁾	7.4x	7.4x	7.7x	8.0x	8.3x	4.6x
Net cash provided by operating activities	1,764	77,260	74,386	78,302	77,418	69,211
Net cash used in investing activities	531	23,283	49,132	17,014	31,319	35,790

Net cash used in financing activities	1,263	55,322	20,293	45,464	44,819	45,900
Dividends declared to common shareholders	934	40,909	38,758	36,578	28,299	14,459
Dividends declared per common share	5.00	219.00	207.00	194.00	150.00	78.00

- (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, 2010, has been translated into U.S. dollars at the exchange rate of Php43.81 to US\$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2010. This translation 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) *Total debt represents current portion of long-term debt, long-term debt net of current portion and notes payable.*
- (3) *For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for non-controlling 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 non-controlling 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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The following table summarizes PLDT's capital stock issued as at December 31, 2010 and 2009:

	December 31,	
	2010	2009
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stock		
A to HH	Php 4,059	Php 4,056
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360	360
	Php 4,419	Php 4,416
Common Stock	Php 947	Php 947

Dividends Declared

The following table shows the dividends declared to common shareholders from the earnings for the years ended December 31, 2008, 2009 and 2010:

Earnings	Approved	Date		Per share (in pesos)	Amount Total Declared (in million pesos)
		Record	Payable		
2008	August 5, 2008	August 22, 2008	September 22, 2008	70	13,140
2008	March 3, 2009	March 18, 2009	April 21, 2009	70	13,124
2008	March 3, 2009	March 18, 2009	April 21, 2009	60	11,250
				200	37,514
2009	August 4, 2009	August 20, 2009	September 22, 2009	77	14,384
2009	March 2, 2010	March 17, 2010	April 20, 2010	76	14,197
2009	March 2, 2010	March 17, 2010	April 20, 2010	65	12,142
				218	40,723
2010	August 3, 2010	August 19, 2010	September 21, 2010	78	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

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in Note 19 Equity and Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in

Item 18. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries. See Note 19 Equity to the accompanying consolidated financial statements in Item 18. 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 proceeds abroad, net of applicable withholding tax.

Table of Contents**Dividends Paid**

A summary of dividends paid per share of PLDT's common stock stated in both Philippine peso and U.S. dollars follows:

		In Philippine Peso	In U.S. Dollars
2006		78.00	1.54
2007		150.00	3.26
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

Dividends on PLDT's common stock were declared and paid in Philippine pesos. For the convenience of the reader, the Philippine peso dividends are translated 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 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 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:

	Period End	Year Ended December 31,		
		Average⁽¹⁾	High⁽²⁾	Low⁽³⁾
2006	Php49.05	Php51.17	Php49.05	Php53.59
2007	41.41	45.88	41.14	49.16
2008	47.65	44.71	40.36	49.98
2009	46.43	47.82	45.95	49.06
2010	43.81	45.10	42.52	46.98
2011 (through March 29, 2011)	43.53	43.80	43.30	44.59

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.*

	Period End	Average⁽¹⁾	Month High⁽²⁾	Low⁽³⁾
2010				
October	Php43.06	Php43.40	Php43.06	Php43.89
November	44.15	43.55	42.52	44.26
December	43.81	43.94	43.65	44.38
2011				
January	44.31	44.20	43.71	44.59
February	43.68	43.67	43.36	44.21
March (through March 29, 2011)	43.53	43.51	43.30	43.95

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.*

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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, 2010 of Php43.81 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 29, 2011, the exchange rate quoted through the Philippine Dealing System was Php43.53 to US\$1.00. The weighted average exchange rate of the Philippine peso to the U.S. dollar for a year used in the succeeding 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 consider carefully 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 that may adversely affect 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. Including the PLDT Group, there are four major LECs, 11 international gateway facility providers and three major cellular service providers in the country. Many 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. We cannot assure you that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not cause our cellular and fixed line subscribers to switch to other operators or cause us to increase our marketing expenditures or reduce our rates resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry in the Philippines is based primarily on factors such as network coverage, quality of service, product offerings, and price. Recently, competition has increased as operators sought to develop and maintain revenue market share and to attract new subscribers. Our principal cellular competitors, Globe and Digitel, with its *Sun Cellular* brand, have introduced aggressive marketing campaigns and promotions, such as unlimited voice and SMS offers. In addition, the government may allocate additional frequencies and award additional cellular telecommunications licenses in the future, which could lead to increased competition.

As a result of the competitive environment, Smart has not increased its cellular rates since November 1998. Moreover, the level of competition requires Smart to continuously innovate its products and to conduct promotions, which may affect its cellular revenues and revenue growth. For example, in response to fixed rate or bucket plans for voice and text services launched by its competitors, Smart launched promotions pursuant to which *Smart Buddy* and *Talk N Text* prepaid subscribers had the option to avail themselves of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate.

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 or the increase in capital expenditures required for our continued capacity expansion necessary to accommodate the continued

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increases expected in call and text volumes as a result of unlimited voice/text offers will not have a material adverse effect on our financial performance.

The cellular telecommunications industry may not continue to grow.

The majority of our total revenues is currently derived from cellular services. As a result, we depend on the continued development and growth of the cellular telecommunications industry. The cellular penetration rate in the Philippines is estimated to have reached about 94%, counting multiple SIM card ownership. The growth of the cellular communications 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 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 could harm our business.

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 telecommunications sector has been characterized by rapid technological changes. We cannot assure you that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, and we have made significant investments in the roll 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. We have begun upgrading and modernizing our wireless 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 telcos 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, in part, on our ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. 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, could negatively impact our existing businesses and could 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. We cannot assure you that we would be able to adopt or successfully implement new technologies. In addition, there can be no assurance on how emerging and future technological changes will affect our operations or the competitiveness of our services.

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, while a significant portion of our revenues is denominated in Philippine pesos. Approximately 43% of our total consolidated indebtedness was foreign currency-denominated of which approximately 30% was unhedged as at December 31, 2010.

A depreciation of the Philippine peso against the U.S. dollar increases 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 26% of PLDT Group's consolidated service revenues are either denominated in U.S. dollars and/or are linked to the U.S. dollar. In this respect, an appreciation of the weighted

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average exchange rate of the Philippine peso against the U.S. dollar decreases our revenues, and consequently, 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. In 2009, the Philippine peso again appreciated to a high of Php45.95 and closed at Php46.43 as at December 31, 2009 and continued to appreciate to a high of Php42.52 and closed at Php43.81 as at December 31, 2010. We cannot assure you that the Philippine peso will not depreciate and be subjected 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;

- 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 the Philippine peso resulting from either higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and foreign exchange traders including banks covering their short U.S. dollar positions, among others.

Our results of operations have been, and may continue to be, adversely affected by competition in, and the emergence of new services, which may put additional pressures on, our 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 and the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, revenues generated from our international long distance business have declined in recent years.

We anticipate that revenues from international long distance services will continue to decline in the future, primarily due to:

- increases in competition from other domestic and international telecommunications providers;

- advances in technology;

- alternative providers offering internet telephony, also known as VoIP, and broadband capacity; and

- unauthorized traffic termination and bypass routings by international simple resale operators.

The continued increase in cellular penetration in the Philippines and the prevalence of SMS have negatively impacted our national long distance business in recent years. Although revenues from data and other services have grown significantly in recent years compensating for declines in our traditional fixed line businesses, there can be no assurance that we will be able to generate new revenue streams that may fully offset the declines in our traditional fixed line long distance businesses or that these declines will not materially and adversely affect our financial performance.

Net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries have been our predominant source of foreign currency revenues. However, in U.S. dollar terms, these payments have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from possible future declines in the value of the Philippine peso against the U.S. dollar. 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.

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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, we may, from time to time, make acquisitions and investments in companies or businesses. The success of our acquisitions and investments depends on a number of factors, including:

our ability to identify suitable opportunities for investment or acquisition;

our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;

the extent to which we are able to exercise control over the acquired company;

the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group, as well as the ability to execute the identified strategies in order to generate fair returns on the investment; and

our ability to successfully integrate the acquired company or business with our existing businesses.

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

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, 2010, we had consolidated total indebtedness of Php89,646 million (US\$2,046 million), and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity attributable to equity holders of PLDT) of 0.9x. 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, they could require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing 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 43% of our total consolidated debts were denominated in foreign currencies as at December 31, 2010, 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 be 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. The terms of some of our debt instruments have no minimum amount for cross-default.

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

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measures successfully could result in a declaration of default and an acceleration of maturities of some or all of our indebtedness.

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 will 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 senior to the indebtedness we hold.

We may have difficulty meeting 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.

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 Php28,766 million and Php28,069 million in 2010 and 2009, respectively. Our 2011 budget for consolidated capital expenditures is approximately Php34.4 billion, of which approximately Php13.5 billion is budgeted to be spent by PLDT and approximately Php19.5 billion is budgeted to be spent by Smart; 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 expanding and upgrading its transmission network from the backbone up to last mile facilities to meet anticipated increased demand for cellular and broadband services in a highly-competitive playing field, including improvement of quality and subscriber experience, expansion of capacity and its accelerated network modernization program in order to achieve a greater operational and cost efficiencies.

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. If we cannot complete our development programs and other capital projects, our growth, results of operations and financial condition could be materially and adversely affected.

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:

physical damage;

power loss;

capacity limitation;

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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.

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 has beneficial ownership of approximately 26% in PLDT s outstanding common stock as at February 28, 2011. 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, 2011, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT s outstanding common stock. 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;

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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 by any member of the PLDT Group of Smart common capital stock 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.

If a major shareholder sells its interest in PLDT, the transaction may result in an event of default under certain circumstances.

If First Pacific Group or NTT Communications sells all or a portion of their equity interest in PLDT, under certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding debt under its US\$250 million 11.375% notes due 2012. As at December 31, 2010, Php6,387 million in principal amount of PLDT's indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act of the Philippines, Republic Act, 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 became effective; or (b) the entity's first start of commercial operations, whichever date is later. As the timeframe has lapsed without Smart having conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925.

Smart maintains the position that it has not violated the provision in its franchise to make a public offering of its shares within a certain period, since it believes such provision is merely directory. Further, Smart believes that the policy underlying the requirement for telecommunications entities to conduct a public offering should be deemed to have been achieved when PLDT acquired a 100% equity interest in Smart in 2000, since PLDT was then and continues to be a publicly listed company. 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, there can be no assurance that such bill will be enacted or that Philippine Congress will not revoke the franchise of Smart or the Office of Solicitor General of the Philippines will not initiate a *quo warranto* proceeding against Smart for the revocation of its franchise for failure to comply with the provision under R.A. 7925 on the public offering of shares.

Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes.

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 were granted by the NTC and will expire between now and 2028. For a description of our licenses, see Item 4.

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Information on the Company Licenses and Regulation. 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 extensions. Because PLDT filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, we cannot assure you that the NTC will grant these extensions. 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.

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 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 that could have a material adverse effect on our results of operations.

The PLDT Group is also subject to a number of national and local taxes. We cannot assure you that PLDT Group will not be subject to new and/or additional taxes and that PLDT Group would be able to impose additional charges or fees to compensate for the imposition of such taxes.

There are bills in the 14th Philippine Congress which propose to tax telecommunications services. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts of telephone and telegraph services in lieu of the VAT. HB No. 1560, which proposes to impose a franchise tax of 3.5% in the first year and 7% thereafter on gross receipts of telecommunications and broadcast companies, in lieu of the VAT. Other bills filed proposed to tax or regulate fees for telecommunications services. Among them, a proposed tax on mobile phone companies on all text entries to text games; a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and a 10% ad valorem tax on all cellular phone calls using 3G, a proposal to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed.

The Committee on Oversight of Congress also held discussions on the possibility of linking up the BIR and NTC with the telecommunications companies through an electronic metering device, which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

In the Upper House, Senate Bill No. 2402 proposes to establish a Health and Education Acceleration Program Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks which would be remitted to the fund for a period of five years. This tax may not be passed on to consumers. Under the proposed bill, telecommunications companies shall no longer pay for the regular income tax on their income from these transactions during the five-year period that the special gross receipts tax on text messaging is imposed. The income tax scheme for text messaging shall revert to the regular income tax for corporations after the five-year period. Moreover, the bill proposes to allow telecommunications companies to deduct 10% of the tax remitted to the fund from their other income as ordinary business expense over a period of ten years. 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 have a material adverse effect on our results of operations and financial condition. We cannot assure you that we would be able to impose additional charges or fees to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges. The 15th Philippine Congress from June 2010 to June 2013, requested Smart to attend a hearing concerning HB No. 1224 or the Corporate Social Responsibility Act Bill filed by Rep. Gloria Macapagal-Arroyo and Rep. Diosdado Macapagal-Arroyo. However, both the Upper House and Lower House have pending bills concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. The PLDT Group has submitted its position papers on both matters.

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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 material adverse effects on our revenues and profitability.

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

For example, on July 3, 2009, NTC issued Memorandum Circular No. 03-07-2009 promulgating an extension of expiration of prepaid loads from two months to various expiration periods ranging from three days to 120 days. Smart has been implementing the new validity period of prepaid loads since July 19, 2009.

In addition, on July 7, 2009, the NTC issued another Memorandum Circular No. 04-07-2009, further amending the Memorandum Circular No. 03-03-2005A (Rules and Regulation on Broadcast Messaging), which prohibits content and/or information providers from initiating push messages. The Memorandum Circular No. 04-07-2009, further provides that subscribers must be the party to take the initiative with the public telecommunications entities and/or content providers to initiate any service and requires that a notification be sent to subscribers to give subscribers an option whether to continue with the availed service.

In addition, on July 23, 2009 the NTC issued Memorandum Circular No. 05-07-2009 mandating cellular operators, including Smart, to bill subscribers on a maximum six-second pulse basis instead of the previous per minute basis. The NTC granted Smart the provisional authority to charge new rates for the CMTS service and also directed Smart to implement a six seconds per pulse billing scheme on December 5, 2009. Smart subsequently implemented the six seconds 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 seconds per pulse directive. As at the date of this annual report, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing directive.

Furthermore, from time to time, the NTC issues consultative documents on the development of a competition policy framework for the information communications sector and related matters.

For example, on August 24, 2006, the NTC issued a consultative document specifically focusing on its proposal to impose asymmetric regulations on carriers with significant market power, or SMP, including a discussion on its proposed roadmap for implementing such SMP obligations. On October 23, 2006, we submitted our response to such consultative paper to the NTC.

In formulating our responses, we took into account both industry interests and the broader context of our nation's economic development, drawing on the experience in other countries. We believe that the basis for the need for regulatory reform is unclear and the envisioned SMP regime is inappropriate for the Philippines, as the market is highly competitive and well-functioning. In addition, the imposition of asymmetric regulations on SMP would discourage capital investments in a sector on which the Philippine economy is highly dependent. We have therefore proposed that the NTC explore its full range of options available on a cost-benefit basis, taking into consideration the specific local context of the Philippine marketplace.

Furthermore, in 2008, in connection with the NTC's efforts to enhance competition within the telecommunications industry in the Philippines, the NTC issued Memorandum Circulars on the following:

- (a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued on October 7, 2008 and became effective on October 23, 2008; and
- (b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

In addition, on April 14, 2009, the NTC released 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.

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During the last quarter of 2010, the NTC has begun holding public hearings on a proposed Memorandum Order concerning the minimum speed of broadband internet.

We cannot assure you that the NTC will not impose changes to the current regulatory framework, which could lead to increased competition or affect the rates we charge for our services. Any such changes could have a material adverse effect on our business, results of operations and prospects.

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 risks and uncertainties relating to:

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, etc., which could have a material adverse effect on our results of operations and financial condition.

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.

Effective internal controls over financial reporting are 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 controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the fiscal 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 of 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 their audits.

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 the market prices of our common shares and ADSs.

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Risks Relating to the Philippines

PLDT's business may be 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, the Philippines has experienced a number of street protests and violent civil unrest, including coup d'état attempts against the former President Arroyo's administration.

Furthermore, the Philippine economy has experienced periods of slow growth and significant depreciation of the Philippine peso. The Philippine government is also facing a fiscal deficit that the government is aiming to eliminate in the near future by implementing a number of economic reforms.

The fiscal deficit position of the Philippine government and the ongoing political uncertainty have resulted in increased concerns about the political and economic stability of the country. 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.

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 information and communications technology, 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.

PLDT is the leading fixed line service provider in the Philippines with over 60% of the total reported fixed line subscribers nationwide as at December 31, 2010. Smart is the leading cellular service provider in the country, with approximately 52% of total reported cellular subscribers nationwide as at December 31, 2010. We have interests in the information and communications technology sectors, including the operation of our *Vitro*TM data center, customer relationship management and knowledge processing solutions business, and internet and online gaming services.

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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 Php476,976 million, or US\$10,887 million, as at December 31, 2010, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2010, we had total revenues of Php144,459 million, or US\$3,297 million, and net income attributable to equity holders of PLDT of Php40,217 million, or US\$918 million.

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.

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 NTT-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 21% of PLDT's outstanding common stock as at February 28, 2011. 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's beneficial ownership to approximately 28% of PLDT's shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at February 28, 2011. 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, also maintain their own franchises with a different range of services and periods of legal effectiveness for their licenses.

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

PLDT's Acquisition of Digital

On March 29, 2011, the boards of PLDT and JG Summit Holdings, Inc., or JGS, approved the acquisition by PLDT of JGS's and certain other seller-parties' ownership interest in Digital, comprising of: (i) 3,277,135,882 common

shares in Digitel, representing approximately 51.55% equity stake; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiaries to JGS and its subsidiaries, which PLDT expects to be convertible into

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approximately 18.6 billion shares of Digitel by June 30, 2011; and (iii) intercompany advances of Php34.1 billion made by JGS and its subsidiaries and certain of such seller-parties to Digitel and its subsidiaries (the Assets). Digitel is the 100% owner of Digitel Mobile Philippines, Inc., or DMPI, which is engaged in the mobile telecommunications business and owns the brand *Sun Cellular*.

PLDT agreed to pay JGS and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT share for every Php2,500 consideration payable for the Assets. In order to aid the board of PLDT in discharging their fiduciary duties, PLDT will engage an independent financial advisor to review the transaction and render a fairness opinion on the transaction and the consideration payable by PLDT.

PLDT further expects to announce its intention to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the other remaining shareholders of Digitel. Under the contemplated tender offer, it is anticipated that PLDT will offer to purchase the remaining Digitel shares at the price of Php1.60 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of the Digitel shareholder. The contemplated tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT shares for the acquisition of the Assets and of the remaining Digitel shares held by the other remaining shareholders of Digitel. The 29.65 million new PLDT shares will potentially represent approximately 13.7% of the enlarged issued share capital of PLDT on a fully diluted basis.

Assuming full acceptance by the minorities of Digitel, the total transaction consideration would be Php74.1 billion.

The completion of the acquisition will be subject to the procurement of regulatory approvals, including: (i) the approval by the NTC of the sale or transfer of JGS and the other seller-parties Digitel shares representing more than 40% of Digitel s issued and outstanding common stocks; (ii) the approval by the Philippine SEC of the valuation of the Assets; (iii) the approval by the PSE of the block sale of the Digitel shares; (iv) the confirmation by the Philippine SEC that the issuance of the PLDT common shares to JGS and the other seller-parties is exempt from the registration requirement of the SRC; and (v) all other necessary approvals under applicable laws and regulations; and the approval by the stockholders of PLDT for the issuance of the PLDT common shares as payment for the purchase price of the Assets. In addition, the sale of the Digitel shares is subject to the consent of certain creditors of Digitel and DMPI.

This transaction is intended to be completed by the end of the second quarter of 2011.

Reorganization of ePLDT

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 (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. The BPO business group will be eventually transferred to PLDT, subject to the finalization of the terms and conditions thereof and the execution of relevant agreements.

Although our Board of Directors already approved the reorganization of ePLDT into two business groups, ICT business group and BPO business group, the actual reorganization has not yet been consummated as at March 29, 2011 and therefore, as at December 31, 2010, the chief operating decision maker continues to view our business activities using the three business units: Wireless, Fixed Line and ICT.

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, 2008, 2009 and 2010 and those planned for 2011. We have not undertaken any significant divestitures and currently do not have any significant divestitures in progress.

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PLDT Group includes the following significant subsidiaries as at March 29, 2011:

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership	
			Direct	Indirect
Wireless				
Smart:	Philippines	Cellular mobile services	100.0	
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution		100.0
Primeworld Digital Systems, Inc., or PDSI	Philippines	Internet broadband distribution services		100.0
I-Contacts Corporation, or I-Contacts	Philippines	Call center services		100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards		100.0
Smarthub, Inc., or SHI	Philippines	Software development and sale of maintenance and support services		100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company		100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing		100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms		100.0
Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company		100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company		100.0
Connectivity Unlimited				
Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services		100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services; Content provider		100.0
PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Subsidiaries, or PCEV Group	Philippines	Investment company		99.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company		100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or		100.0

		GSM, enabled global telecommunications		
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		85.0
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector		51.0
Telesat, Inc., or Telesat*	Philippines	Satellite communications services	100.0	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite*	Philippines	Satellite communications services	67.0	
Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0	
Smart-NTT Multimedia, Inc., or SNMI*	Philippines	Data and network services	100.0	
PLDT-Philcom, Inc. (formerly known as Philcom Corporation), or Philcom, and Subsidiaries, or Philcom Group	Philippines	Telecommunications services	100.0	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.8	
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services, or VAS	75.0	
Information and Communications Technology, or ICT				
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer relationship management and IT-related services	100.0	
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions		100.0
SPi CRM Inc., or SPi CRM (formerly ePLDT Ventus, Inc.)**	Philippines	Customer relationship management		100.0
Parlance Systems, Inc., or Parlance**	Philippines	Customer relationship management		
Vocativ Systems, Inc., or Vocativ**	Philippines	Customer relationship management		
Infocom Technologies, Inc., or Infocom	Philippines	Internet services		99.6
	Philippines			93.5

BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or BayanTrade Group		Internet-based purchasing, IT consulting and professional services	
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet services	75.0
Level Up!, Inc., or Level Up!	Philippines	Publisher of online games	57.5
netGames, Inc., or netGames	Philippines	Customer relationship management	57.5

* *Ceased commercial operations*

** *On April 8, 2010, SPi CRM, Parlance and Vocativ were merged, with SPi CRM as the surviving entity.*

Development Activities (2008-2010)

On April 25, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI, which collectively own 100% equity interest of CURE for a total consideration of Php420 million. PHC and FHI own 97% and 3%, respectively, of CURE.

On January 3, 2009, PLDT, PremierGlobal Resources and PGCi executed a Share Assignment Agreement wherein PGCi sold to PLDT the rights, title and interest in all of the outstanding common shares of Philcom's common stock for a cash consideration of Php75 million.

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ePLDT's equity interest in BayanTrade increased from 10.8% as at December 31, 2008 to 93.5% as at December 31, 2009 as a result of 34.3% equity interest acquired by ePLDT under the rights offering that was completed on January 20, 2009 for a cash consideration of Php28 million and acquisition of an additional 48.4% equity interest on April 15, 2009 for cash consideration of Php39 million.

On March 12, 2009, FPHC, FPUC, and Lopez, Inc., (collectively, the Lopez Group) and PLDT entered into an investment and cooperation agreement under which: (a) PLDT acquired, through PCEV as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20,070 million, or Php90 per share; and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its assignee to nominate certain senior management officers and members of the board of directors and board committees of Meralco. 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 shares in Meralco.

Under the OA, each of PCEV and MPIC agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of Php20 per share or a total of Php23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon. On March 30, 2010, the investment in Meralco by PCEV was reduced by Php15,083 million, the proportionate carrying amount of 154.2 million Meralco shares sold and transferred to Beacon.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock entitled to liquidation preference and yearly cumulative dividends at the rate of 7% for a subscription price of Php10 per share or a total of Php8,010 million. The subscriptions of MPIC and PCEV were completed on March 30, 2010 and May 12, 2010, respectively, by the offset in full (in the case of PCEV) and in part (in the case of MPIC) of the subscription price by the transfer of Meralco shares held by PCEV and MPIC consisting of 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively. The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Beacon also exercised a Call Option on March 30, 2010 to acquire 74.7 million Meralco shares from FPHC in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

On March 30, 2010, Beacon entered into an Php18,000 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon pursuant to its exercise of the Call Option. The amount drawn under this facility amounted to Php16,200 million (Php16,027 million, net of debt issuance cost of Php173 million), the remaining undrawn balance amounted to Php1,800 million as at December 31, 2010. This facility is not guaranteed by PLDT and is not included in our consolidated debt.

As at December 31, 2010, the carrying value of Beacon's investment in Meralco of Php73,322 million includes: (a) consideration for the Transferred Shares from PCEV of Php23,130 million and from MPIC of Php24,540 million; (b) consideration for the Option Shares from FPHC of Php22,410 million; (c) liability for contingent consideration of Php2,373 million; (d) capitalized costs of Php942 million pursuant to an agreement between PCEV and MPIC; and (e) equity share in net earnings of Meralco of Php2,655 million less (f) dividends received of Php2,728 million from Meralco.

As at December 31, 2010, Beacon held 393 million Meralco common shares representing approximately 35% equity interest in Meralco with market value of Php89,490 million based on a quoted price of Php228 per share. See Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further information on the acquisition of Meralco shares and the transfer of PCEV's equity interest in Meralco.

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, fully payable in cash on August 12, 2009, from PCEV's non-controlling shareholders up to approximately 840 million shares which is approximately 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report

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offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of PCEV's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of PCEV. The aggregate cost for the tender offer paid by Smart to non-controlling shareholders on August 12, 2009 amounted to Php6,618 million, from which Smart recognized an excess of acquisition cost over the carrying value of non-controlling interests acquired of Php5,479 million presented as part of capital in excess of par value account under Equity in our consolidated statement of financial position. See Note 13 Business Combinations and Acquisition of Non-Controlling Interests to the accompanying consolidated financial statements in Item 18 for further discussion.

On June 30, 2009, PCEV's stockholders approved the sale and transfer of PCEV's cellular mobile telephone business/assets to Smart through a series of transactions, which included: (a) the assignment of PCEV's *Talk N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of PCEV's existing *Talk N Text* subscriber base to Smart in consideration of the rate of Php73 per subscriber, which is equivalent to Smart's average acquisition cost per subscriber in 2008 for its *Smart Buddy* subscribers representing Php1,213 million in the aggregate; and (c) the sale of PCEV's GSM fixed assets to Smart at net book value. As a result, the cellular mobile telephone business has been consolidated under Smart in order to maximize revenue streams and eliminate any potential regulatory issues relating to the traffic between PCEV and Smart. The NTC approved the request for the sale and transfer of PCEV's subscribers to Smart submitted on July 8, 2009 and the transfer of PCEV's cellular mobile telephone business and assets to Smart completed on August 17, 2009.

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW to approximately 1.2 million shares representing 51.0% of the total issued and outstanding shares of BOW from 381 thousand shares, or 28.3%. The cost of the additional investment in BOW amounted to US\$6 million, or Php301 million, for 782 thousand shares, or US\$8 per share, of which US\$4 million, or Php182 million, was paid in cash and US\$2 million, or Php119 million, was offset against net payables by BOW to Smart.

PCEV's Board of Directors approved three share buyback programs during its meetings on November 3, 2008, March 2, 2009 and August 3, 2009. For all three programs, the buyback was done through the trading facilities of the PSE via open market purchases, block trades or other modes, subject to compliance with applicable laws, rules and regulations. Number of shares approved for repurchase under the buyback programs were 58 million, 25 million and 61.5 million for the programs approved on November 3, 2008, March 2, 2009 and August 3, 2009, respectively. The program approved on November 3, 2008 was completed in January 2009 at a total cost of Php403 million, while the program approved on March 2, 2009 was completed in March 2009 at a total cost of Php188 million. The program approved on August 3, 2009 is still ongoing and will continue until the number of shares earmarked for the program has been fully repurchased or until such time as PCEV's Board of Directors determines otherwise. The most recent share buyback program was undertaken to accommodate minority shareholders who may not have had the opportunity to participate in the tender offer of Smart due to various constraints. The maximum price under this program is Php8.50 per share. As at December 31, 2010, approximately 3.6 million shares at a cost of Php29.8 million have been repurchased under the third buyback program. Cumulative shares repurchased under the share buyback programs totaled approximately 86.6 million and 85.8 million at an aggregate cost of Php621 million and Php614 million as at December 31, 2010 and 2009, respectively, which reduced the amount of non-controlling interests by the same amount.

On August 31, 2009, SPi (through SPi-America, a wholly-owned U.S. subsidiary of SPi) signed a Stock Purchase Agreement with Laguna Medical, a California Corporation, and its various sellers, to purchase 80% of the issued and outstanding common shares of Laguna Medical for a cash consideration of US\$6.6 million, or Php313 million. Simultaneous with the agreement to acquire the 80% equity interest of Laguna Medical, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation, in respect of the remaining 20% of the outstanding common stock of Laguna Medical held by Laguna Medical LLC. Under said Put-Call Agreement, commencing on July 1, 2011, Laguna Medical LLC granted SPi the exclusive right to purchase the remaining Laguna Medical shares (call right) while SPi granted Laguna Medical LLC the exclusive right to sell the remaining Laguna Medical shares (put right) to SPi. Based on our evaluation of the mandatory Put-Call option, SPi has present access to the economic benefits associated with the ownership interest in Laguna Medical, hence, control over the 20% interest has already been in the possession of SPi since August 31, 2009. As a result, the effective ownership interest of Laguna Medical

acquired by SPi on August 31, 2009 was 100%. The acquisition cost for the remaining 20% of the outstanding common stock of Laguna Medical is equivalent to the base price of US\$2 million plus the change in Laguna Medical EBITDA from the date of acquisition to April 30, 2011 multiplied by applicable performance factors specified in the agreement.

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In May and October 2009, Smart acquired an aggregate of approximately 84 million shares, representing the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. The acquisition was completed on two dates: (a) the first closing took place on May 14, 2009 and involved the acquisition of approximately 34 million shares representing 40% of the issued and outstanding shares of PDSI for a consideration of Php632 million; and (b) the second closing took place on October 2, 2009 and involved the acquisition of the remaining approximately 50 million shares representing 60% of the issued and outstanding shares of PDSI for a consideration of Php937 million.

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka, a mobile applications development and services company, for a total consideration of US\$13.5 million, or Php629 million, of which US\$12.1 million, or Php564 million, was paid in cash on December 18, 2009 and the balance of US\$1.4 million, or Php65 million, was paid on September 27, 2010 upon completion of the post closing provisions. See Note 23 Accrued Expenses and Other Current Liabilities to the accompanying consolidated financial statements in Item 18 for further discussion.

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

Wireless

We provide cellular and wireless broadband, satellite and other services through our wireless business, which contributed about 92% and 8% of our wireless service revenues, respectively, in 2010. In previous years, rapid growth in the cellular market has resulted in a change in our revenue composition with cellular service as our largest revenue source, surpassing our fixed line revenues in 2003. Cellular data services, which include all text messaging and text-related services ranging from ordinary text to VAS, contributed significantly to our revenue increase. Our total wireless revenues accounted for 61% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008. For each of the years ended December 31, 2010, 2009 and 2008, our cellular service revenues accounted for 91% of our total wireless revenues.

Our cellular service, which accounted for about 92% of our wireless service revenues for the year ended December 31, 2010, is provided through Smart and CURE. As measured by subscriber base, Smart is the leading cellular service provider in the Philippines, with 45,636,008 subscribers as at December 31, 2010 including 953,609 subscribers of *Red Mobile*, representing a market share of approximately 52%. In 2010, the combined number of Smart and *Red Mobile* subscribers increased by 4,307,367, or 10%, to 45,636,008. The growth was due to a combination of organic subscriber growth and multiple SIM card ownership especially in the lower income segment of the Philippine wireless market. The continued popularity of multiple SIM card ownership, together with unlimited voice offers, resulted in a decrease in our average revenue per user, or ARPU, and partly due to the continuous introduction of innovative services. Cellular penetration in the Philippines reached approximately 94% as at December 31, 2010, or approximately 24 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards overstates this penetration rate to a certain extent.

Nearly 99% of Smart's and all of Red Mobile's cellular subscribers as at December 31, 2010 were prepaid service subscribers and subscriber gains in 2010 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 rapidly while controlling credit risk and reducing billing and administrative costs on a per-subscriber basis.

Our cellular subscriber growth has also been driven by text messaging. Text messaging continues to be 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. While still a significant contributor to Smart's and *Red Mobile*'s cellular data service volume growth in 2010, cellular data service revenues decreased by Php5,543 million, or 12%, to Php41,529 million in 2010 from Php47,072 million in 2009.

Smart's cellular network is the most extensive in the Philippines, covering substantially all of Metro 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 10,316

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cellular/mobile broadband base stations as at the end of December 2010, Smart's cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

Fixed Line

We are the leading provider of fixed line telecommunications services throughout the country. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,822,105 fixed line subscribers as at December 31, 2010, an increase of 5,564 from the 1,816,541 fixed line subscribers as at December 31, 2009. Total revenues from our fixed line accounted for 32% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008. International long distance revenues and national long distance revenues have been declining largely due to a drop in call volumes as a result of alternative means of communications such as texting, e-mailing and internet telephony. Partly mitigating these declines has been the growth of our data and other network services in recent years. Recognizing the growth potential of data and other network services, we have put considerable emphasis on the development of new packet-switched, data-capable and IP-based networks.

Our 10,050-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 remote areas. 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, satellite systems 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.

Information and Communications Technology

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated information and communications technology, or ICT, services focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal activities are the operation of an internet data center under the brand name *Vitro*, customer relationship management, knowledge processing solutions, and internet and online gaming business. Total revenues from our ICT services accounted for 7% of our total revenues for each of the years ended December 31, 2010, 2009 and 2008.

Strengths

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

Recognized Brands. PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for over 80 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 reliable value for money brand.

Leading Market Shares. With over 49 million fixed line, cellular and broadband subscribers as at December 31, 2010, we have the leading market positions in each of the fixed line, cellular and broadband markets in the Philippines.

Diversified Revenue Sources. We derive our revenues from our three business segments, namely, wireless, fixed line and ICT businesses, with wireless contributing 61%, fixed line 32% and ICT 7% to our total revenues in 2010. Revenue sources of our wireless business include cellular services, which include voice services and text message-related and VAS, and wireless broadband services. Our fixed line business derives service revenues from local exchange, international long distance, national long distance and data and other network services. In our ICT business, sources of revenue include knowledge processing solutions, customer relationship management and internet and online gaming business, and data center and other services. Revenues from our fixed line services, such as local exchange, national and international long distance, have been declining over the past years due to

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pressures on traditional fixed line voice revenues and reductions in international interconnection rates, offset by the significant revenue contribution of our data and other network service. Fixed line revenues represent 32% of our total revenues in 2010, 2009, and 2008. We will continue to identify and develop new revenue sources to further broaden our diversified revenue base for our wireless, fixed line and ICT businesses.

Advanced 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 are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. This includes the build out of a second network that has been designed to contain the increase in voice traffic resulting from lower cost voice offers under our Red Mobile brand. This network and brand strategy will allow the quality of service on our main network serving our Buddy and Talk and Text brands to be maintained. In addition, we continue our upgrade of our fixed line network to an all IP-based NGN, and continue to roll out 3G and wireless broadband in order to increase broadband subscribers and expand our data/broadband capabilities. We are also investing in the upgrade of our wireless network to achieve, among others, greater operational and cost efficiencies.

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 Buddy* and *Talk N Text* subscribers.

Strong Strategic Relationships. We have important strategic relationships with First Pacific, NTT DoCoMo and NTT Communications. The technological support, international experience and management expertise made available to us through these strategic relationships enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Strategy

The key elements of our business strategy are:

Build on our leading positions in the fixed line and wireless businesses. We plan to build on our position as the leading fixed line and wireless service providers 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. We are currently upgrading our fixed line facilities to NGN, and have rolled out a 3G network based on a W-CDMA technology as well as expanding our DSL and wireless broadband facilities. We plan to upgrade of our wireless network to achieve operating and cost efficiencies. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.

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 ICT services utilizing our network and business platforms. We are also lowering our costs by integrating the operations of our different businesses.

Strengthen our leading position in the data and broadband market. Leveraging on the inherent strength 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 have launched various products and services in the data and broadband market that address different market needs.

Maintain a strong financial position and improve shareholder returns. In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction.

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As the cash flows generated by our businesses have increased and our leverage ratios have improved, we have been able to restore the payment of cash dividends to our common shareholders beginning 2005 and were able to declare dividend payouts of approximately 100% in each of 2008, 2009 and 2010 of our core earnings. We expect that our free cash flows will continue to be utilized for the payment of cash dividends to common shareholders and investments in new growth areas while continuing to maintain a healthy balance sheet position. As part of our growth strategy, we 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 the global outsourcing and off-shoring industry.

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 CURE to over 45 million subscribers, approximately 99% of whom are prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other VAS, which include: (a) *Smart Money*; (b) specialized content such as ringtones, logos, caller ringback tunes; (c) *Mobile Banking* (banking services delivered over the cellular network); (d) international roaming; and (e) games and other VAS developed on Smart's platform.

The following table summarizes key measures of Smart's and CURE's cellular business as at and for the years ended December 31, 2010, 2009 and 2008:

		2010		2009		2008
Systemwide cellular subscriber base		45,636,008		41,328,641		35,224,604
Prepaid		45,214,433		40,893,098		34,826,468
<i>Smart Buddy</i>		25,293,443		23,762,814		20,501,617
<i>Talk N Text</i>		18,967,381		17,050,713		14,308,493
<i>Red Mobile</i> ⁽¹⁾		953,609		79,571		16,358
Postpaid		421,575		435,543		398,136
Growth rate of cellular subscribers		10%		17%		17%
<i>Smart Buddy</i>		6%		16%		3%
<i>Talk N Text</i>		11%		19%		47%
<i>Red Mobile</i> ⁽¹⁾		1,098%		386%		100%
Cellular revenues (in millions)	Php	86,399	Php	88,410	Php	87,518
Voice		42,250		38,850		37,275
Data		41,529		47,072		47,804
Others ⁽²⁾		2,620		2,488		2,439
Percentage of cellular revenues to total wireless service revenues		92%		92%		94%
Percentage of cellular revenues to total service revenues		56%		56%		57%

(1) *The Red Mobile brand was launched in November 2008 by CURE.*

(2) *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, Wolfpac and other Smart subsidiaries.*

Service Plans. Smart markets nationwide cellular communications services under the brand names *Smart Buddy*, *Talk N Text*, *Smart Gold* and *Smart Infinity*, while CURE offers *Red Mobile*. *Smart Buddy*, *Talk N Text* and *Red Mobile* are prepaid services while *Smart Gold* and *Smart Infinity* are postpaid services, which are all provided through

Smart's digital network.

Smart has focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up services which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of preset duration. Starting out as purely on-network packages, Smart's top-up services now include text message bundles available to all networks.

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Smart also has a roster of 3G services which it commercially launched in May 2006. These services include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

Smartalk, Smart's unlimited voice offering, is available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart's network. Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in two denominations:

Smartalk 100 which offers five days of unlimited calls for Php100; and

Smartalk 500 which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

Buoyed by the widespread acceptance of the service, Smart offers *Smartalk Plus*, which includes unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:00 p.m. to 5:00 p.m., and call and SMS rates of Php2.50 per minute and Php0.20 per SMS, respectively, from 5:01 p.m. to 9:59 p.m. As a result, Smart's 2010 outbound voice traffic almost doubled from 2009 levels. In 2010, Smart expanded its roster of unlimited offerings on the back of the planned capacity expansion of its networks. Smart expects to continue to successfully maintain its market leadership through innovative voice and text packages that drive activations, boost usage and strengthen brand equity.

Through the *Talk N Text UnliTalk Plus 100* package, existing *Talk N Text* subscribers can avail of unlimited off-peak calls from 10:00 p.m. to 5:00 p.m. and special peak hour rates of Php2.50 per minute from 5:01 p.m. to 9:59 p.m. to any *Smart Buddy*, Smart Postpaid and *Talk N Text* subscribers. The package also includes all day unlimited texting to any *Smart Buddy*, Smart Postpaid and *Talk N Text* subscribers. Each registration to this promo is valid for five days. *Talk N Text* also has *UnliTalk 100* which offers five days of unlimited calls to *Talk N Text* and Smart subscribers.

Red Mobile Unlimited offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers using a secondary network powered by Smart.

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 Php42,250 million, Php38,850 million and Php37,275 million, or 49%, 44% and 43% of cellular service revenues in 2010, 2009 and 2008, respectively. Local calls continue to dominate outbound traffic constituting 83% of all our cellular minutes. Domestic inbound and outbound calls totaled 23,110 million minutes in 2010, an increase of 9,739 million minutes, or 73%, as compared with 13,371 million minutes in 2009, due to increased usage resulting from unlimited voice offerings. International inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in cellular subscriber base. The ratio of inbound-to-outbound international long distance minutes was 13.5:1 for 2010.

Data Services. Cellular revenues from data services include all text messaging-related services, as well as, VAS. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling 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. Text messaging also utilizes less network capacity than voice, thereby increasing network efficiency.

Text messaging has been one of the key drivers for our cellular subscriber growth. Despite the strong volume growth in text messaging, Smart's cellular revenues from this service declined by 13% to Php38,901 million in 2010 from Php44,573 million in 2009, resulting mainly from the continued decline in SMS yield as a result of aggressive SMS pricing offers, the prescribed extension of load validity periods and alternative means of communication and increases in the number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards in their calls and SMS. In 2010, Smart's text messaging system handled 18,319 million outbound messages on standard SMS services with 312,634 million messages generated by bucket-priced text services.

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In 2010, approximately 48% of Smart's cellular revenues were derived from data usage, compared to 53% in 2009. Smart also offers the following value-added cellular services:

Smart Money, which is a reloadable payment card powered by MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their Smart Money cards and reload their *Smart Buddy*, *Talk N Text* and *Smart Bro* accounts electronically; and

Mobile Banking, launched in collaboration with various banks, allows subscribers to execute banking transactions such as balance inquiries and transfers over their mobile telephones.

Consistent with Smart's objective to develop new businesses, Smart introduced a fixed wireless broadband service under the brand *Smart Bro* to complement PLDT's DSL in areas that are currently not covered by the fixed line network. *Smart Bro* is rapidly increasing network coverage in order to retain first-mover advantage in areas with limited or no fixed line or broadband coverage. *Smart Bro* is also pioneering a shared access model in order to propagate broadband and address affordability barriers.

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. Our current approach is to continue maximizing our GSM, or 2G, network services while upgrading our network to Enhanced Data for GSM Evolution, or EDGE. EDGE is a technology that would further increase the speed and data capability of our GSM network. In addition, on December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked the highest among 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 of being ranked highest, 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 spectrum, the range that would best enable it to deploy its 3G network nationwide and at the same time offer the highest quality of 3G service.

Rates and Discounts

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 Buddy and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php100, Php300 and Php500, which include zero, 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 our over-the-air 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 denominations of Php15, Php30, Php60, Php115, Php200, Php300, Php500 and Php1,000 with corresponding expiration periods, as well as Php10 available via *Talk N Text's* ticket load only and Php20 available only as a bucket load package. The introduction of our over-the-air *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 plans as a means of driving subscriber activations and stimulating usage. These bucket plans, which offer a fixed number of text messages or call minutes for a limited validity period, have proven to be extremely popular with subscribers and now account for 25% of our wireless service revenues. In the past years, Smart also began to offer unlimited voice and text plans under its various brands in order to be competitive and maintain industry leadership.

Smart Buddy subscribers are charged Php6.50 per minute for calls to *Smart Buddy* 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 Buddy* and other cellular fixed line subscribers are charged Php6.50 per minute. *Red Mobile* subscriber calls to other *Red Mobile* subscribers are charged at Php0.50 per minute. Calls to *Smart Buddy* and *Talk N Text* subscribers are charged Php2.00 per minute while calls to other networks subscribers are charged Php6.50 per minute.

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We offer both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php300 to Php3,500 for *Smart Gold* and from Php5,000 to Php8,000 for *Smart Infinity*. These plans are available with varying amounts of free air time and text messages and different rates beyond the free minutes and text messages, depending on the monthly service fee. Monthly service fees for flat rate, or regular, plans are applicable only to local calls, text messages and data browsing, as well as for consumable plans to all voice calls, text messages (both local and international) and VAS.

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 27 other destinations and US\$2.18 per minute for another ten destinations. 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.

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 20 regional distributors, all exclusive and 49 key account dealers, 23 of which are exclusive. These dealers include major distributors of cellular handsets and broadband modems whose main focus is telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products introductions. 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 2.2 million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs, individual roving agents). These micro-retailers must be affiliated with any 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.

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. Air time cards and over-the-air reloads are sold to distributors at an average discount of approximately 8% and 5%, respectively. Air time cards cannot be returned or refunded and normally expire within six to 12 months after release from the Smart warehouse.

Wireless Broadband, Satellite and Other Services***Overview***

We currently provide wireless broadband, and satellite and other services through SBI, BOW, our wireless GSM communications service provider for the maritime sector, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator.

SBI

Through SBI, we are engaged in providing wireless broadband and data services under the brand name *Smart Bro* to residential consumers as well as small and medium-scale enterprises in the Philippines. As at December 31, 2010, SBI had 1,355,977 wireless broadband subscribers, an increase of 318,257 subscribers, or 31% as compared with 1,037,720 subscribers as at December 31, 2009. *Smart Bro* aims to strengthen Smart's position in the wireless data service and complements PLDT's *myDSL* service in areas where the latter is not available.

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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.

Airborne Access

Through Airborne Access, we provide wireless internet access in hotspots nationwide equipped with Airborne Access WiFi access points.

Wolfpac

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

Chikka

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

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 26 Contractual Obligations and Commercial Commitments to the accompanying 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.

Revenues

Our revenues from wireless broadband, and satellite and other services consist of wireless broadband service revenues for SBI, BOW and PDSI, charges for ACeS Philippines' satellite information and messaging services, service revenues generated from PLDT Global's subsidiaries and revenues generated from Wolfpac and Chikka Group for wireless data content.

Rates

Smart Bro, 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 *Smart Bro Plug-It*, a wireless modem which provides instant connectivity in places where there is Smart network coverage. *Smart Bro Plug-It* is 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 *Smart Bro Plug-It Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

Smart Bro WiMAX service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* was initially offered at Plan 999 for unlimited broadband usage with a burst speed of up to 1 Mbps.

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Additional unlimited broadband packages are also available under Plan 799 and Plan 1995 with speeds of up to 512 kbps and up to 2 Mbps, respectively.

Wolfpac 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 Php10.00 to Php30.00.

ACeS mobile service subscribers are charged Php13.84 per minute for local and cell-to-cell 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 subsidiaries, BCC, PLDT Global Group, ClarkTel, SubicTel, SBI, PDSI and Maratel. Together, these subsidiaries account for approximately 4% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange service as at and for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Number of local exchange line subscribers	1,822,105	1,816,541	1,782,356
Number of fixed line employees	7,395	7,947	7,813
Number of local exchange line subscribers per employee	246	229	228
Total local exchange service revenues (in millions)	Php 15,321	Php 15,681	Php 15,923
Local exchange service revenues as a percentage of total fixed line service revenues	31%	31%	32%
Local exchange service revenues as a percentage of total service revenues	10%	10%	10%

Revenues from our local exchange service decreased by Php360 million, or 2%, to Php15,321 million in 2010 from Php15,681 million in 2009 primarily due to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and the decrease in installation and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues accounted for 31% in each of 2010 and 2009.

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, 2010. 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 Php1,200 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 the 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 and are charged based on usage.

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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 the Internet@Home service, which is a voice and data bundle 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: (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 denominations, respectively.

For a detailed description of these rates, see [International Long Distance Service Rates](#) and [National Long Distance Service Rates](#).

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-dollar exchange rate relative to a base rate of Php11.00 to US\$1.00. In 2010, we have not made any adjustment in our monthly local service rates. 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 effect, there has been no change in the average Philippine peso to U.S. dollar rate of Php49.76 to US\$1.00 factored in our monthly local service rates until the end of 2010.

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 international gateway facilities. 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, 2010, 2009 and 2008:

	2010	2009	2008
Total call volumes (in million minutes)	1,714	1,863	2,024
Inbound call volumes (in million minutes)	1,515	1,653	1,786
Outbound call volumes (in million minutes)	199	210	238
Inbound-outbound call ratio	7.6:1	7.9:1	7.5:1
Total international long distance service revenues (in millions)	Php5,224	Php6,255	Php7,063
International long distance service revenues as a percentage of total fixed line service revenues	11%	12%	14%
International long distance service revenues as a percentage of total service revenues	4%	4%	5%

International long distance service historically has been a major source of our revenue. However, primarily due to the steep decline in inbound termination and collection rates and intense competition, revenues derived from our international long distance service have been declining significantly.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including: (a) lowering our inbound termination rates; (b) identifying and containing unauthorized traffic termination

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on our network; (c) being more selective in accepting incoming traffic from second- and third-tier international carriers; and (d) 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 new products and services such as international prepaid cards, 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, 2010, 2009 and 2008:

	Net Settlement		
	2010	2009	2008
	(in millions)		
Saudi Arabia	US\$ 32	US\$ 33	US\$ 30
United States	31	25	46
United Arab Emirates	14	20	20
Japan	11	17	14
Qatar	11	5	4
Hongkong	10	8	4
Taiwan	6	6	6
Singapore	4	5	5
Canada	3	9	9
Others	19	29	36
Total	US\$ 141	US\$ 157	US\$ 174

Rates

The average termination rate for PLDT was approximately US\$0.105 per minute in 2009 and US\$0.10 per minute in 2010.

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 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 Php15.00 per minute depending on the destination to more than 100 calling destinations (excluding the Middle East). In April 2007, we introduced the *Budget Card Middle East Edition* which 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.

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.

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The following table shows certain information about our national long distance services for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Total call volumes (in million minutes)	1,290	1,822	1,944
Total national long distance service revenues (in million pesos)	4,690	5,969	6,207
National long distance service revenue as a percentage of total fixed line service revenues	10%	12%	13%
National long distance service revenue as a percentage of total service revenues	3%	4%	4%

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing and cellular text messaging, have negatively affected our national long distance call volumes partially offset by 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, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Rates

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

In addition, PLDT launches promotions from time to time 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 leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

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The following table summarizes key measures of our data and other network services as at and for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Subscriber base:			
<i>Broadband</i>	665,027	576,687	448,826
DSL	643,048	559,664	432,583
WeRoam	21,979	17,023	16,243
<i>SWUP</i>	15,641	12,383	6,516
Total data and other network service revenues (in million pesos)	21,646	21,567	18,607
Domestic	15,637	16,391	14,155
<i>Broadband</i>	8,511	7,232	5,563
DSL	8,263	7,024	5,360
WeRoam	248	208	203
<i>Leased Lines and Others</i>	7,126	9,159	8,592
International			
<i>Leased Lines and Others</i>	6,009	5,176	4,452
Data and other network service revenues as a percentage of total fixed line service revenues	44%	42%	38%
Data and other network service revenues as a percentage of total service revenues	14%	14%	12%

Recognizing the growth potential of data and other networking services, including IP-based services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services in 2010 and continued to grow in the first quarter of 2011.

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 value-added and broadband 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 2010, 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 *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate subscribers with multiple branches, and *PLDT WeRoam*, our broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies).

WeRoam mobile broadband offers enterprise-grade postpaid packages that include unlimited internet or VPN access with maximum speeds of 3.6 Mbps via HSPA technology. VAS such as cloud-based web security and premium static IP addressing are also available to enterprise customers. *WeRoam* is offered at monthly recurring fees of Php1,300, Php1,500, Php1,750 or Php2,000 depending on the type of plan selected.

The *WeRoam Notebook Shop* bundles *WeRoam* with the latest Lenovo business laptops to provide companies with powerful mobile productivity solutions. The *WeRoam Notebook Shop* is available in three packages, *Portable*, *Productive* and *Performance*, depending on the computing power needed, offered at monthly recurring fees ranging from Php2,520 to Php8,926.

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.

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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.

Information and Communications Technology

We conduct our ICT businesses through our wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of: (1) knowledge processing solutions, through the SPi Group; (2) customer relationship management through SPi CRM; (3) an internet data center under the brand name *Vitro*; and (4) internet and online gaming through Infocom, netGames, Digital Paradise and Level Up!. Our ICT business registered revenues of Php11,358 million, Php11,549 million and Php10,983 million for the years ended December 31, 2010, 2009 and 2008, respectively, accounting for 7% of our total revenues in each year. The growth in the revenue contribution from our ICT business was primarily due to the continued growth of our data center and knowledge processing solutions businesses' service revenues.

Knowledge Processing Solutions

ePLDT provides knowledge processing solutions through the SPi Group. Our knowledge processing solutions business provides services such as: (a) editorial and content production services to the scholarly scientific, technical and medical journal publishing industry; (b) digital content conversion services to information organizations; (c) pre-press project management services to book publishers; (d) 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 (e) 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 2010, we owned and operated 5,565 seats with an average of 4,592 CSRs compared to 7,140 seats with an average of 5,190 CSRs in 2009. As at December 31, 2010 and 2009, SPi CRM had six and seven customer relationship management sites, respectively.

Internet and Online Gaming

ePLDT owns a 99.6% equity interest in Infocom, one of the country's leading internet service providers, or ISPs. Infocom offers consumer prepaid internet access under the name *WarpSpeed* and *Speed Tipid*, and postpaid internet access; dedicated dial-up and multi-user dial-up corporate leased lines; broadband internet access through DSL and cable; and website consulting, development and hosting. ePLDT also owns a 75% equity interest in Digital Paradise, an internet café business with 104 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia*. ePLDT further holds a 57.5% equity interest both in netGames, a publisher of Massively Multi-player Online Games in the Philippines and in Level Up!, a leading publisher of online games in the Philippines.

Data Center and Others

ePLDT operates *Vitro*, one of the Philippines' first internet data centers that provides co-location, web and server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and web hosting, shared applications, data disaster recovery and business continuity services, intrusion detection and IP security services, as well as firewall and managed firewall, and other data services.

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Infrastructure

Wireless Network Infrastructure

Cellular

Through Smart, we operate a digital GSM network. To meet the growing demand for cellular services, Smart has 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, 2010, Smart had 48 mobile switching centers, 94 text messaging service centers and 10,316 cellular/mobile broadband base stations in operation after having added 589 cellular/mobile broadband base stations to its nationwide cellular network in 2010.

Smart has an operating spectrum of 7.5 MHz in the 900 band supporting 20 MHz in the 1800 band for its GSM network and 15 MHz in the 2100 band and 10 MHz in the 850 band assigned for 3G and W-CDMA. Smart's 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. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Smart has been deploying its 3G network in urban areas where there is a demand for mobile broadband applications and where 3G mobile units are more likely to be available. We do not expect spectrum constraints to affect Smart's expansion plans for GSM in the foreseeable future.

Due to its access to PLDT's network assets, 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. Based on existing equipment purchase contracts, Smart expects incremental capital expenditure per net additional subscriber to amount to less than US\$50.

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. Smart has been continuously extending its 3G footprint and since it commenced, it now covers 410 cities and municipalities which includes the whole Metro Manila and major urban centers nationwide. Smart also upgraded its 3G network to HSDPA to provide users with high download data rates and an improved broadband experience.

Smart has been co-locating its cell sites where its base stations are installed. As at December 31, 2010, 27 of Smart's mobile switching centers were housed in PLDT's fixed line complexes. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

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 eventually 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. 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.

Table of Contents**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 203 central office exchanges nationwide as at December 31, 2010 and continuously expanding the wireline infrastructure in unserved and underserved areas using new technology.

We are currently upgrading 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 switches and transfer existing customers to this new 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.

We have also started the upgrading of our legacy data and transport networks to IP-based platform. This enables us to also replace the old data network and provides new capabilities to our corporate data customers. We also expect to complete this initiative in 2015.

We also have an Internet Gateway that provides premium service 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 internet service to all types of customers ranging from ordinary broadband customers 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 provides wide range of bandwidth from low speed to high speed capacity in Gigabits per seconds. These networks are deployed in strategic areas nationwide comprising of more than a thousand nodes and these networks will eventually be evolved to a converged multi-service Carrier Ethernet Network starting this year.

We have our own 10,050-kilometer DFON, the country's first telecommunications network using fiber optics in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network employs MSAP and Reconfigurable Optical Add-Drop Multiplexer technologies to improve network performance and reduce operating costs. Our network is composed of in-land and submarine cable installations and is configured in seven self-healing rings and three self-healing subtending rings, or small rings within the main DFON loop, allowing route delivery even in the event of single link failure per ring. Further, one main and one subtending rings are also provided with a third fiber optic cable routes to further improve network resiliency in case of double/multiple link failures within the ring. To date, the PLDT DFON has an aggregate capacity of 1.7 Terabits per second and is connected directly to four international submarine cable systems. PLDT's fiber optic transport network is augmented by the nationwide terrestrial microwave backbone operated by Smart. These microwave networks complement the higher capacity fiber optic networks and are vital in delivering reliable services to remote areas.

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 single IP transport platform for all IP-based services of PLDT.

For many years, PLDT has been using the power pole network of Meralco in Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to lease agreements with Meralco. PLDT, through PCEV, has approximately 6% direct ownership interest in Meralco and approximately 17.5% indirect interest in Meralco through PCEV's investment in Beacon, and has in this regard entered into an investment and cooperation agreement with the Lopez Group providing it with certain corporate governance rights in respect of Meralco. See Information on the Company Infrastructure - Fixed Line Network Infrastructure, Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Investing Activities and Note 10 - Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further information on the Meralco shares acquisition and the transfer of PCEV's equity share in Meralco.

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We provide international network services using our two international gateway switching exchanges. As at December 31, 2010, our international long distance facilities allow direct correspondence with 40 countries (representing 79 correspondents) and can reach 668 foreign destinations (via direct and transited routes including fix and mobile breakouts) worldwide. We also own interests in submarine cable systems, through which we route all of our international traffic.

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

Cable System	Countries Being Linked
G-P	Guam and the Philippines
Asia-Pacific Cable Network 2	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-U.S. Cable	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
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S. Cable and TGN	Japan and the U.S.
Asia-America Gateway	Malaysia, Singapore, Thailand, Vietnam, Brunei, Hong Kong, Philippines, Guam, Hawaii and the U.S. Mainland

In November 2009, PLDT, along with a consortium of major carriers in Asia and North America, put into service a new international cable system first started in 2007, the Asia-America Gateway, connecting the Asia-Pacific Region and North America with a capacity of 100 Gigabit per second and using the latest Dense Wavelength Division Multiplexing, or DWDM, technology to provide upgradeable, future proof transmission facilities. This new cable system not only provides PLDT additional capacity to support rapid growth of broadband and resiliency to existing international cable systems, but also puts PLDT in a strategic position to be the gateway between Asia-Pacific and North America which provides opportunities for new business as regional internet hub.

In July 2010, PLDT signed a Memorandum of Understanding to plan the Asia Submarine-cable Express (ASE) project. On January 27, 2011, PLDT signed the ASE Construction and Maintenance Agreement with leading telecommunication companies of Japan, Singapore and Malaysia. As the Philippine Landing Party, PLDT will build a

new cable landing station in Daet, Camarines Norte to accommodate the ASE. The system will initially connect the Philippines, Japan, Hong Kong, Singapore and Malaysia. It is expected to be operational by the third quarter of 2012.

Interconnection Agreements

Since the issuance of Executive Order 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.

Effective January 1, 2003, local access for cellular operators, including Smart, that terminate calls to PLDT's fixed line network increased from Php2.00 per minute to Php2.50 per minute, which further increased to Php3.00 per minute effective January 1, 2004.

Since January 1, 2004, domestic calls terminating to cellular subscribers originating from fixed line subscribers were charged a termination rate of Php4.00 per minute.

Under a separate agreement between PLDT and PAPTELCO, PLDT is the transit facility provider between Smart, Globe, other LECs, operators and PAPTELCO. Transit traffic is a service by PLDT to Smart, Globe, other LEC operators and PAPTELCO members where PAPTELCO members have no direct interconnection with either

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Smart, Globe and other LEC operators. PLDT also has similar arrangement with other non-members of PAPTELCO.

Effective January 1, 2002, Smart charged a termination rate of Php4.00 per minute for domestic calls originating from or terminating to another cellular operator's network. For SMS originating from Smart and terminating on other operators' cellular network and for SMS originating from other operators and terminating on Smart's cellular network, the charge is Php0.35 per message.

Effective February 1, 2003, international calls terminating to PLDT's fixed line network have been charged a termination rate of approximately US\$0.12 per minute, an increase from the previous rate of approximately US\$0.08 per minute. Also, international calls terminating to Smart's cellular network have been charged a termination rate of approximately US\$0.16 per minute, an increase from the previous termination rate of approximately US\$0.12 per minute. In 2010, the average termination rates for PLDT and Smart were approximately US\$0.10 per minute and US\$0.13 per minute, respectively.

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.

Direct interconnection, termination/access charges or the charges a carrier bills the other in directly accessing its network are bilaterally negotiated and agreed upon by the carriers, pursuant to NTC rules and regulations.

As an authorized Inter-Exchange Carrier, PLDT provides transit services or calls originating from one carrier and terminating to the other via PLDT's network. PLDT provides extensive transit services to PAPTELCO and non-PAPTELCO carriers, these entities virtually having no telecommunications backbone of their own. As at December 31, 2010, PAPTELCO has 47 member companies operating 122 main telephone exchanges in the countryside.

In 2010, wholesale termination rate to PLDT fixed line network remained at approximately US\$0.10 per minute while traffic to Smart via PLDT international gateway facility was rated wholesale at approximately US\$0.13 per minute. Despite the global trend to reduce wholesale international termination rates, PLDT has kept its rates at approximately above US\$0.10 level considering the cost to haul and terminate these calls to its subscribers.

Licenses and Regulations

Licenses

PLDT, Subictel, Clarktel, Philcom, Smart, PCEV, 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 Smart, on March 27, 2017; in the case of PCEV, on May 14, 2019; in the case of SBI, on July 14, 2022; and in the case of CURE, on April 24, 2026. 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 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 period 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 are currently pending with the NTC. See Item 3. Key Information Risk Factors

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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.

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 international gateway facility. 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 03, 2011, which is still pending resolution by the NTC as at March 29, 2011. 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 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 two 15 MHz spectrums awarded to Smart.

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

Under the terms of the 3G license, Smart was required to:

begin installation and rollout of its 3G network no later than 18 months from the date of the award;

start commercial operations no later than 30 months from the date of the award; and

cover at least 80% of provincial capitals and 80% of chartered cities within five years.

PCEV was authorized to provide virtually every type of telecommunications service, including the transmission of voice, data facsimile, audio and video and information services, in and between provinces, cities and municipalities throughout the Philippines. The franchise, which was last amended on May 14, 1992, will expire on May 14, 2019 and may be extended by a legislative act of the Philippine Congress. On January 8, 2010, the NTC approved the transfer to SBI of PCEV's CPCN to establish, construct, operate and maintain a nationwide CMTS.

SBI is a grantee of a 25-year legislative franchise under R.A. 8337, which expires 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 Sibuguey, 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 02, 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.

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CURE is a grantee of a 25-year congressional franchise under R.A. 9130, which expires 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 issuance of CPCN or extension on the 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.

PDSI is a grantee of a 25-year congressional franchise under R.A. 8992 which expires on January 26, 2026. The scope of its franchise is to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business providing basic and enhanced telecommunication 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. Most recently, on April 7, 2010, the NTC issued an order dated June 29, 2010 extending the provisional authority to another three years or up to June 22, 2013. Likewise, PDSI is a registered VAS provider for internet access services and VoIP.

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

Carrier	Spectrum System	Frequency Assignment	Bandwidth
Smart	ETACS/GSM 900	897.5-905/942.5-950 MHz	7.5 MHz
		1725-1730/1820-1825 MHz	5.0 MHz
	GSM 1800	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
		1920-1935/2110-2125 MHz	15.0 MHz
3G (W-CDMA)	825-835/870-880 MHz	10.0 MHz	
SBI	AMPS/CDMA ⁽¹⁾	824-825/869-870 MHz	1.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
	Wireless broadband	2670-2690 MHz ⁽²⁾	20.0 MHz
		2400-2483.5 MHz ⁽²⁾	73.0 MHz
		3400-3590 MHz ⁽²⁾	94.0MHz
5470-5850 MHz ⁽²⁾	123.0MHz		
CURE	3G	1955-1965/2145-2155 MHz	10.0 MHz
PDSI	BWA (WiMAX)	2332.5-2362.5 MHz ⁽³⁾	30.0 MHz

⁽¹⁾ On January 8, 2010, the NTC approved the transfer of PCEV's CPCN to SBI

⁽²⁾ SBI frequency assignments on these bands are non-contiguous and are on a per station and location basis

⁽³⁾ On May 27, 2010, the NTC adjusted PDSI's frequency assignments from 2340-2370 MHz to 2332.5-2362.5 MHz, due to various technical considerations

Material Effects of Regulation on our Business

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

PLDT, Subicel, Clarktel, Philcom, Smart, 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.

The 14th Philippine Congress considered two bills that relate to the imposition of a franchise tax on telecommunications companies. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts of telephone and telegraph services in lieu of the VAT. HB No. 1560 proposed a franchise tax at the rate of 3.5% on the

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first year and 7% thereafter on gross receipts of telecommunications and broadcast companies, in lieu of the VAT. Other bills filed proposed to tax telecommunications services. Among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G, a bill that seeks to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and providing for free text messages until the prepaid load has been fully consumed.

The Committee on Oversight of Congress also held discussions on the possibility of linking up the BIR and NTC with the telecommunications companies through an electronic metering device, which discussions led to a proposal to impose an additional Php0.10 tax on text messaging.

In the Upper House, Senate Bill No. 2402 proposes to establish a Health and Education Acceleration Program Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks which would be remitted to the fund for a period of five years. This tax may not be passed on to consumers. Under the proposed bill, telecommunications companies shall no longer pay for the regular income tax on their income from these transactions during the five-year period that the special gross receipts tax on text messaging is imposed. The income tax scheme for text messaging shall revert to the regular income tax for corporations after the five-year period. Moreover, the bill proposes to allow telecommunications companies to deduct 10% of the tax remitted to the fund from their other income as ordinary business expense over a period of ten years.

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 Upper and Lower House have pending bills filed by various legislators concerning Anti-Trust, Competition and the setting up of a Fair Trade Commission. The PLDT Group has submitted its position papers on both matters.

In 2009, the NTC 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 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 subscribers be the party to initiate any services with public telecommunication entities and/or content providers, 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 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 pulse scheme on December 5, 2009. Smart subsequently implemented the six seconds 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 seconds per pulse directive. As of March 31, 2010, the matter is pending before the Court of Appeals and is the subject of a temporary restraining order preventing the NTC from implementing its six second per pulse billing 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 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 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

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or combination thereof in restraint of free competition. The NTC, through the Office of the Solicitor General filed a motion for reconsideration of the decision. Smart was required by the Court of Appeals to file its comment.

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.

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 has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. See Item 3. Key Information Risk Factors The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares for further discussion.

In 2008, in connection with the NTC's efforts to enhance competition within the telecommunications industry in the Philippines, the NTC issued Memorandum Circulars on the following:

- (a) guidelines on the mandatory interconnection of backhaul networks to the cable landing station, which were issued on October 7, 2008 and became effective on October 23, 2008; and
- (b) guidelines on the interconnection of LECs in local calling areas that eliminate interconnection access charges between LECs within a local calling area, which were issued on May 30, 2008 and became effective on June 17, 2008.

In addition, 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.

During the last quarter of 2010, the NTC started holding public hearings on a proposed Memorandum Order concerning minimum speed of broadband internet.

Competition

Including us, there are four major LECs, 11 international gateway facility providers and three major cellular service providers in the country. Many 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. Consequently, we face increasing competition in major services of the telecommunications industry, particularly data and other network services.

Cellular Service

There are presently three major operating service providers, namely Smart, Globe and Digitel. Globe acquired Innove to form one operating group while Smart and Red Mobile, all being part of the PLDT Group, form another operating group. These two operating groups have an approximately 82% share of the Philippine cellular market. There are therefore effectively two large competitors in the Philippine cellular market. The third active operator, Digitel, commenced its cellular service, *Sun Cellular*, on March 29, 2003 and is estimated to have an approximately 18% share of the cellular market as at December 31, 2010. In December 2005, the NTC awarded four out of five 3G licenses to existing cellular operators Smart, Globe, Digitel and to a new entrant, CURE. The NTC has yet to award a fifth license to another operator.

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Competition in the cellular telecommunications industry has intensified with the increased availability of affordably priced handsets offering a range of new functions and the introduction by competitors of new and improved plans for postpaid subscribers, reduced rates per minute and aggressive marketing and promotional strategies. The principal bases of competition are price, including handset cost, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 10,316 cellular/mobile broadband base stations as at December 31, 2010.

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. Likewise, Globe has been rolling out its 3G network.

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 2009 and 2010 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 Digitel, BayanTel and Globe, which provide local exchange service through both fixed and fixed wireless landline services.

There are currently four 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 such service was provided by Digitel 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 was lacking fixed cable facilities. Globe quickly followed suit with a similar service at a monthly rate of Php995 which bundled a wireless landline and broadband internet connection of up to 384 kbps. This service is offered in limited areas of Metropolitan Manila such as Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon such as Cavite and Batangas.

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 Metro 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 denominations, respectively.

International Long Distance Service

There are 11 licensed international gateway facility operators in the country, including us. While we still maintain a leadership position in this highly competitive segment of the industry, our market share in recent years has declined as a result of: (1) competition from other international gateway facility operators and illegal international simple resale 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. Digitel and Globe have also launched new pricing schemes to grow their outbound call volumes.

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 a 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 is 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, BayanTel and Digitel. 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 203 exchanges nationwide, of which 46 are located in the Metropolitan Manila area. The remaining 157 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, 2010, we had 6,037 cellular cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations.

As at December 31, 2010, our principal properties, excluding property under construction, consisted of the following, based on net book values:

69% consisted of cable, wire and cellular facilities, including our DFON, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;

15% consisted of central office equipment, including international gateway facilities, 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;

5% 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

1% consisted of other work equipment.

For more information on these properties, see Note 9 Property, Plant and Equipment to the accompanying 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 and PCEV'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 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

For 2011, we expect that cash from operations should enable us to increase the level of our capital expenditures for the continued expansion and upgrading of our network infrastructure. We expect to make additional investments in our core facilities to maximize existing technologies and increase capacity to accommodate expected continued increases in call and text volumes as a result of unlimited voice and text offerings and other promotions. Our 2011 budget for consolidated capital expenditures is approximately Php34.4 billion, of which approximately Php19.5 billion is budgeted to be spent by Smart, approximately Php13.5 billion is budgeted to be spent by PLDT

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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 expanding and upgrading its transmission network from the backbone up to last mile facilities to meet increased demand for cellular and broadband services in a highly-competitive playing field. Smart's 2011 capital investments are driven by rapidly-evolving technologies in both voice- and data-centric environments, improvement of quality and subscriber experience, expansion of capacity and achieving operational and cost efficiencies with its accelerated network modernization program. The aggressive rollout, expansion and modernization programs will likewise prepare Smart for the projected massive growth and demand in broadband business.

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, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 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 translated to U.S. dollars at the exchange rate at December 31, 2010 of Php43.81 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 three reportable operating segments which serve as the basis for management's decision to allocate resources and evaluate operating performance:

Wireless – wireless telecommunications services provided through our cellular service providers namely, Smart, PCEV (on August 17, 2009, Smart acquired the cellular business of PCEV, which is formerly known as Pilipino Telephone Corporation) and CURE; SBI, BOW, Airborne Access Corporation and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and ACeS Philippines, our satellite operator;

Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries ClarkTel, SubicTel, Philcom and subsidiaries, Maratel, SBI, PDSI, BCC and PLDT Global, all of which together account for approximately 4% of our consolidated fixed line subscribers; and

ICT – information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT and BayanTrade Group; knowledge processing solutions provided by the SPi Group; customer relationship management provided by SPi CRM, (on April 8, 2010, SPi CRM, Parlance and Vocativ were merged wherein SPi CRM became the surviving entity); internet access and online gaming services provided by Infocom, Digital Paradise, netGames and Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in Note 10 – Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

For a more detailed overview of our three main business segments, please 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 – Information and Communications Technology, respectively.

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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 Php46.43 as at December 31, 2009 to Php43.81 as at December 31, 2010, as a result of which we recognized in 2010 foreign exchange gains in the amount of Php1,807 million, representing an increase of Php898 million from Php909 million foreign exchange gains recognized in 2009. Moreover, since approximately 26% 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, in 2010, the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.12 in 2010 from Php47.64 in 2009 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 Php1,741 million in 2010 from Php1,006 million in 2009. Please see Item 3. Key Information Risk Factors Our result of operations and financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar .

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, 2008, 2009 and 2010 is set forth below.

The following table shows the reconciliation of our consolidated adjusted EBITDA to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
	(in million pesos)		
Consolidated adjusted EBITDA	83,717	86,194	87,996
Amortization of intangible assets	(388)	(368)	(377)
Depreciation and amortization	(26,277)	(25,607)	(24,709)
Asset impairment:			
Investments in associates and joint ventures	(78)		(282)
Property, plant and equipment	(120)	(634)	(104)
Goodwill and intangible assets	(1,243)	(379)	(2,450)
Prepayments and others	(55)	(1,324)	(23)
Consolidated operating profit for the year	55,556	57,882	60,051
Foreign exchange gains (losses) net	1,807	909	(6,170)
Equity share in net earnings (losses) of associates and joint ventures	1,408	2	(176)
Interest income	1,200	1,539	1,668
Gains (losses) on derivative financial instruments net	(1,741)	(1,006)	3,115
Financing costs net	(6,698)	(6,556)	(6,104)
Other income	2,153	2,069	1,665
Consolidated income before income tax	53,685	54,839	54,049
Provision for income tax	13,426	14,744	19,073

Consolidated net income for the year	40,259	40,095	34,976
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The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
		(in million pesos)	
Consolidated core income for the year	42,028	41,138	38,214
Foreign exchange gains (losses) net	1,819	908	(6,170)
Core income adjustment on equity share in net earnings of associates and joint ventures	(699)	(517)	
Gains (losses) on derivative financial instruments net, excluding hedge cost	(1,307)	(407)	3,934
Asset impairment on noncurrent assets	(1,492)	(1,948)	(2,486)
Net tax effect of aforementioned adjustments	(132)	607	825
Net income for the year attributable to equity holders of PLDT	40,217	39,781	34,317
Net income for the year attributable to non-controlling interests	42	314	659
Consolidated net income for the year	40,259	40,095	34,976

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 reporting date. 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.

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, BOW, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka, which is the U.S. dollar; and Singapore dollar for SCH, SGP, 3rd Brand, and certain subsidiaries of BayanTrade.

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*, which requires us to make judgments and estimates of transfer of risk and rewards of ownership of the leased properties. Total lease expense arising from operating leases amounted to Php3,970 million, Php4,055 million and Php3,656 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total finance lease obligations amounted to Php43 million and Php64 million as at December 31, 2010 and 2009, respectively. See Note 20 Interest-bearing Financial Liabilities, Note 26 Contractual Obligations and Commercial Commitments and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

Significant influence in Manila Electric Company, or Meralco, on which PCEV has less than 20% ownership

Under *IAS 28, Investments in Associates*, significant influence must be present and currently exercisable over an investee to account for any interest in that investee as investment in an associate and carried at equity method of accounting. If an investor holds, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

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On March 30, 2010, following the transfer of PCEV's Meralco shares to Beacon, PCEV's direct ownership in Meralco was reduced to approximately 6% from approximately 20%. Beacon is a jointly controlled entity of PCEV and MPIC for the purpose of consolidating the ownership interest of PCEV and MPIC in Meralco. The decrease in PCEV's direct ownership in Meralco, however, did not result to a change in PCEV's representation to the Meralco Board of Directors. Prior to the transfer of approximately 14% interest in Meralco to Beacon, PCEV had three out of the 11 Board of Directors seats in Meralco. Based on the Omnibus Agreement, or OA, among PCEV, MPIC and Beacon, both PCEV and MPIC agreed that an equal number of Meralco nominee directors shall be chosen from each list of nominees provided by PCEV and MPIC. If the number of Meralco Nominee Directors for Beacon is an odd number, the remaining one Meralco Nominee Director shall be chosen alternatively first from the list of nominees provided by MPIC and then from the list provided by PCEV. The total Beacon ownership in Meralco entitles it to nominate three Board of Directors seats, two of which are the Chairman of the Board and the President of PCEV. For Meralco Board of Directors, committees and officers, these are jointly nominated from a list of nominees mutually agreed by MPIC and PCEV and vote affirmatively for the appointment of individuals to different Board of Directors committees and officers that Beacon is entitled to under the current MPIC-PCEV shareholders agreement. The Board of Directors members, committees and Meralco officers, which are the operating decision makers of Meralco, are represented by MPIC and PCEV through nominations. On this basis, PCEV has retained significant influence over Meralco, despite having less than 20% ownership interest, by virtue of PCEV's 6% direct ownership interest together with its indirect interest of about 17.5% through PCEV's investment in Beacon. See Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

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 as follows:

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 cash-generating units 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 cash-generating unit 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. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) amounted to Php2,438 million, Php5,061 million and Php4,180 million for the years ended December 31, 2010, 2009 and 2008, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses and Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18.

The carrying values of our property, plant and equipment, investments in associates and joint ventures, goodwill and intangible assets, trade and other receivables, inventories and supplies and prepayments are separately disclosed in Notes 9, 10, 14, 16, 17 and 18 to the accompanying consolidated financial statements in Item 18, respectively.

Table of Contents*Estimating useful lives of property, plant and equipment*

We estimate the useful lives of our property, plant and equipment 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 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 are reviewed at least at each financial 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 would increase our recorded expenses and decrease our noncurrent assets.

The total depreciation and amortization of property, plant and equipment amounted to Php26,277 million, Php25,607 million and Php24,709 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php163,184 million and Php161,256 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information and Note 9 Property, Plant and Equipment to the accompanying consolidated financial statements in Item 18.

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 annually performed every December 31.

Net gains from fair value adjustments charged to profit or loss amounted to Php6 million, Php352 million and Php59 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of our investment properties amounted to Php1,560 million and Php1,210 million as at December 31, 2010 and 2009, respectively. See Note 12 Investment Properties to the accompanying consolidated financial statements in Item 18.

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 starting January 1, 2009 and purchase method for prior year acquisitions, which both 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. 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 useful economic 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 amounted to Php388 million, Php368 million and Php377 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total carrying values of goodwill and intangible assets amounted to Php11,485 million and Php13,024 million as at December 31, 2010 and 2009, respectively. See Note 13 Business Combinations and Acquisition of Non-Controlling Interests and Note 14 Goodwill and Intangible Assets to the accompanying consolidated financial statements in Item 18.

Table of Contents*Recognition of deferred income tax assets and liabilities*

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, and assess the future tax consequences for the recognition of deferred income tax assets and deferred income tax liabilities. Based on Smart's and Wolfpac'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 Php1,477 million and Php1,236 million as at December 31, 2010 and 2009, 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 Php2,805 million and Php3,296 million as at December 31, 2010 and 2009, respectively. Total consolidated provision for deferred income tax amounted to Php1,198 million, Php656 million and Php2,715 million for the years ended December 31, 2010, 2009 and 2008, respectively. Total consolidated net deferred income tax assets amounted to Php6,110 million and Php7,721 million as at December 31, 2010 and 2009, respectively, while total consolidated net deferred income tax liabilities amounted to Php1,099 million and Php1,321 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information and Note 7 Income Taxes to the accompanying consolidated financial statements in Item 18.

Estimating allowance for doubtful accounts

If we assessed that there is 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 collectibility 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 asset impairment provision for trade and other receivables recognized in our consolidated income statements amounted to Php834 million, Php2,335 million and Php1,079 million for the years ended December 31, 2010, 2009 and 2008, respectively. Trade and other receivables, net of asset impairment, amounted to Php16,428 million and Php14,729 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses, Note 16 Trade and Other Receivables and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

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 Php108 million, Php389 million and Php242 million for the years ended December 31, 2010, 2009 and 2008, respectively. The carrying values of inventories and

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supplies amounted to Php2,219 million and Php2,165 million as at December 31, 2010 and 2009, respectively. See Note 4 Operating Segment Information, Note 5 Income and Expenses and Note 17 Inventories and Supplies to the accompanying consolidated financial statements in Item 18.

Share-based payment transactions

Our 2007 to 2009 LTIP grants SARs to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled in our consolidated income statement. The estimates and assumptions are described in Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18 and include, among other things, annual stock volatility, risk-free interest rate, dividends yield, the remaining life of options, and the fair value of common stock. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in our actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations. The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million for the years ended December 31, 2009 and 2008, respectively. The outstanding 2007 to 2009 LTIP liability of Php4,582 million as at December 31, 2009 was paid in full in April 2010. See Note 5 Income and Expenses, Note 23 Accrued Expenses and Other Current Liabilities and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18 for further discussion.

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 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18. 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 at year-end.

Total consolidated pension benefit costs amounted to Php236 million, Php1,306 million and Php725 million for the years ended December 31, 2010, 2009 and 2008, respectively. Unrecognized net actuarial gains amounted to Php479 million as at December 31, 2010 and unrecognized net actuarial losses amounted to Php2,474 million as at December 31, 2009. The prepaid benefit costs amounted to Php5,333 million and Php5,414 million as at December 31, 2010 and 2009, respectively. The accrued benefit costs amounted to Php415 million and Php359 million as at December 31, 2010 and 2009, respectively. See Note 5 Income and Expenses, Note 18 Prepayments and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and the Board of Directors, and is 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 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 other employee benefits. All assumptions are reviewed on a monthly basis. Total outstanding liability and fair value of 2010 to 2012 LTIP cost amounted to Php1,392 million as at and for the year ended December 31, 2010. See Note 5 Income and Expenses and Note 25 Shared-based Payments

and Employee Benefits to the accompanying consolidated financial statements in Item 18.

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

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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 Php1,344 million and Php1,204 million as at December 31, 2010 and 2009, respectively. See Note 21 Deferred Credits and Other Noncurrent Liabilities to the accompanying consolidated financial statements in Item 18.

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 has 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 will have a material adverse effect on our consolidated financial statements. 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 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

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 to reflect the substance of the transaction. Where fair value is not directly observable, the total consideration is allocated using an appropriate allocation method.

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 such amount is determined to be recoverable.

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

Determination of fair values of financial assets and liabilities

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Total fair values of financial assets and liabilities amounted to Php55,538 million and Php167,396 million as at December 31, 2010, respectively, while the total fair values of financial assets and liabilities amounted to Php58,225 million and Php165,063 million as at December 31, 2009, respectively. See Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18.

Table of Contents**New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to December 31, 2010**

Please see Note 2 Summary of Significant Accounting Policies to the accompanying consolidated financial statements in Item 18 for a discussion of new accounting standards that will become effective subsequent to December 31, 2010 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, 2010, 2009 and 2008. Most 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	ICT (in millions)	Inter-segment Transactions	Consolidated
For the year ended December 31, 2010					
Revenues	Php95,187	Php48,951	Php11,358	Php(11,037)	Php144,459
Expenses	49,632	38,745	11,944	(11,418)	88,903
Other income (expenses)	1,235	(2,946)	221	(381)	(1,871)
Income (loss) before income tax	46,790	7,260	(365)		53,685
Provision for (benefit from) income tax	11,414	2,050	(38)		13,426
Net income (loss) for the year/ Segment profit (loss) for the year	35,376	5,210	(327)		40,259
Adjusted EBITDA for the year	58,945	22,668	1,723	381	83,717
Adjusted EBITDA margin for the year ⁽¹⁾	63%	47%	16%		59%
Core income for the year	35,418	5,580	1,030		42,028
For the year ended December 31, 2009					
Revenues	97,524	51,373	11,549	(12,453)	147,993
Expenses	52,432	39,081	11,289	(12,691)	90,111
Other income (expenses)	1,149	(4,170)	216	(238)	(3,043)
Income before income tax	46,241	8,122	476		54,839
Provision for (benefit from) income tax	12,514	2,258	(28)		14,744
Net income for the year/ Segment profit for the year	33,727	5,864	504		40,095
Adjusted EBITDA for the year	59,411	25,215	1,330	238	86,194
Adjusted EBITDA margin for the year ⁽¹⁾	62%	49%	12%		59%
Core income for the year	33,026	7,502	613	(3)	41,138
For the year ended December 31, 2008					
Revenues	95,852	49,686	10,983	(10,684)	145,837
Expenses	47,589	35,733	13,267	(10,803)	85,786

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Other expenses	(2,640)	(3,173)	(1)	(188)	(6,002)
Income (loss) before income tax	45,623	10,780	(2,285)	(69)	54,049
Provision for (benefit from) income tax	16,124	3,048	(99)		19,073
Net income for the year/ Segment profit (loss) for the year	29,499	7,732	(2,186)	(69)	34,976
Adjusted EBITDA for the year	60,967	25,854	1,056	119	87,996
Adjusted EBITDA margin for the year ⁽¹⁾	65%	52%	10%		62%
Core income for the year	30,250	7,890	138	(64)	38,214

⁽¹⁾ Adjusted EBITDA margin is derived as a percentage of service revenues.

Table of Contents**2010 Compared to 2009
On a Consolidated Basis****Revenues**

Our revenues for 2010 decreased by Php3,534 million, or 2%, to Php144,459 million from Php147,993 million in 2009. This decrease was primarily due to a decline in our service revenues by Php3,325 million as a result of decreases in cellular and satellite revenues from our wireless business, as well as lower revenues from our fixed line business national and international long distance services.

The following table shows the breakdown of our consolidated revenues for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 95,187	66	Php 97,524	66	Php (2,337)	(2)
Fixed line	48,951	34	51,373	34	(2,422)	(5)
Information and communications technology	11,358	8	11,549	8	(191)	(2)
Inter-segment transactions	(11,037)	(8)	(12,453)	(8)	1,416	(11)
Consolidated	Php 144,459	100	Php 147,993	100	Php (3,534)	(2)

Expenses

Our expenses in 2010 decreased by Php1,208 million, or 1%, to Php88,903 million from Php90,111 million in 2009 largely as a result of decreases in asset impairment, cost of sales, selling and promotions, taxes and licenses, rent, and communication, training and travel expenses, which were partly offset by higher compensation and employee benefits, repairs and maintenance, depreciation and amortization, and professional and other contracted services.

The following table shows the breakdown of our consolidated expenses for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 49,632	56	Php 52,432	58	Php (2,800)	(5)
Fixed line	38,745	44	39,081	43	(336)	(1)
Information and communications technology	11,944	13	11,289	13	655	6
Inter-segment transactions	(11,418)	(13)	(12,691)	(14)	1,273	10
Consolidated	Php 88,903	100	Php 90,111	100	Php (1,208)	(1)

Other Expenses

Consolidated other expenses net in 2010 amounted to Php 1,871 million, a decrease of Php1,172 million, or 39%, from Php3,043 million in 2009 primarily due to the combined effects of the following: (i) net increase in equity share in net earnings of associates and joint ventures of Php1,406 million, which was mainly due to PCEV's equity share in net earnings of Manila Electric Company, or Meralco, of which 68.8 million Meralco shares are held directly by PCEV and an additional 317.8 million Meralco shares are held through Beacon, in which PCEV acquired a 50% equity interest effective March 31, 2010 in exchange for transferring 154.2 million Meralco shares to Beacon; (ii) higher net foreign exchange gains by Php898 million in 2010 as compared with 2009 due to the revaluation of

foreign-currency denominated liabilities as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) higher net losses on derivative financial instruments by Php735 million due to a gain in 2009 in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV partially offset by lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts in 2010; (iv) lower interest income by Php339 million due to lower average level of money market placements and special deposits; (v) an increase in net financing costs by Php142 million mainly due to higher interest on loans and other related items net, on account of PLDT's and Smart's higher average loan balances, and higher accretion on amortization of debt issuance cost and debt discount, and ICT business's higher accretion on contingent consideration for business acquisitions; and (vi) an increase in other income by Php84 million, which was mainly due to gain on disposal of fixed assets of our wireless business and

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reversal of prior year's provision by our fixed line business, partially offset by lower gain on fixed assets disposal by our fixed line business.

The following table shows the breakdown of our consolidated other income (expenses) net for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 1,235	(66)	Php 1,149	(38)	Php 86	7
Fixed line	(2,946)	158	(4,170)	137	1,224	(29)
Information and communications technology	221	(12)	216	(7)	5	2
Inter-segment transactions	(381)	20	(238)	8	(143)	60
Consolidated	Php (1,871)	100	Php (3,043)	100	Php 1,172	(39)

Provision for Income Tax

Provision for income tax decreased by Php1,318 million, or 9%, to Php13,426 million in 2010 from Php14,744 million in 2009 mainly due to lower taxable income from our fixed line and ICT businesses.

Net Income (Loss)

As a result, our consolidated net income was Php40,259 million in 2010, an increase of Php164 million as compared with Php40,095 million in 2009 primarily on account of decreases in consolidated provision for income tax, consolidated expenses and consolidated other expenses net partially offset by a decrease in consolidated revenues.

The following table shows the breakdown of our consolidated net income (loss) for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 35,376	88	Php 33,727	84	Php 1,649	5
Fixed line	5,210	13	5,864	15	(654)	(11)
Information and communications technology	(327)	(1)	504	1	(831)	(165)
Consolidated	Php 40,259	100	Php 40,095	100	Php 164	

Adjusted EBITDA

Our consolidated adjusted EBITDA was Php83,717 million in 2010, a decrease of Php2,477 million, or 3%, as compared with Php86,194 million in 2009 primarily due to a decline in our service revenue across our businesses and higher expenses related to compensation and employee benefits, repairs and maintenance, and professional and other contracted services partly offset by lower expenses particularly provision for doubtful accounts, cost of sales, selling and promotions, and taxes and licenses.

The following table shows the breakdown of our consolidated adjusted EBITDA for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 58,945	70	Php 59,411	69	Php (466)	(1)

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Fixed line	22,668	27	25,215	29	(2,547)	(10)
Information and communications technology	1,723	2	1,330	2	393	30
Inter-segment transactions	381	1	238		143	60
Consolidated	Php 83,717	100	Php 86,194	100	Php (2,477)	(3)

Core Income

Our consolidated core income in 2010 was Php42,028 million, an increase of Php890 million, or 2%, as compared with Php41,138 million in 2009 primarily due to decreases in consolidated provision for income tax and consolidated expenses partially offset by a decrease in consolidated revenues.

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The following table shows the breakdown of our consolidated core income for the years ended December 31, 2010 and 2009 by business segment:

	2010	%	2009	%	Change	
			(in millions)		Amount	%
Wireless	Php 35,418	84	Php 33,026	80	Php 2,392	7
Fixed line	5,580	13	7,502	18	(1,922)	(26)
Information and communications technology	1,030	3	613	2	417	68
Inter-segment transactions			(3)		3	100
Consolidated	Php 42,028	100	Php 41,138	100	Php 890	2

A reconciliation of our consolidated adjusted EBITDA and our consolidated core income to our consolidated net income is presented in Note 4 – Operating Segment Information to the accompanying consolidated financial statements in Item 18.

On a Business Segment Basis**Wireless****Revenues**

Revenues generated from our wireless business amounted to Php95,187 million in 2010, a decrease of Php2,337 million, or 2%, from Php97,524 million in 2009. The following table summarizes our total revenues from our wireless business for the years ended December 31, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease)	
			(in millions)		Amount	%
Service Revenues:						
Cellular	Php 86,399	91	Php 88,410	91	Php (2,011)	(2)
Wireless broadband, satellite and others						
Wireless broadband	6,286	7	5,383	5	903	17
Satellite and others	1,145	1	2,036	2	(891)	(44)
	93,830	99	95,829	98	(1,999)	(2)
Non-Service Revenues:						
Sale of cellular handsets, cellular subscriber identification module, or SIM,-packs and broadband data modems	1,357	1	1,695	2	(338)	(20)
Total Wireless Revenues	Php 95,187	100	Php 97,524	100	Php (2,337)	(2)

Service Revenues

Our wireless service revenues decreased by Php1,999 million, or 2%, to Php93,830 million in 2010 as compared with Php95,829 million in 2009, mainly as a result of lower revenues from our cellular services, and satellite and other revenues, partially offset by the increase in our wireless broadband revenues. The decrease in our cellular revenues was mainly due to the decline in revenues from domestic and international text messaging services because of the

continued increase in multiple SIM card ownership, intense competition, the continued decline in yields from short messaging service, or SMS, as a result of aggressive pricing offers, and the prescribed extension of load validity periods. The decline was partially offset, however, by an increase in domestic voice revenues due to the continued patronage of unlimited voice offers, which were introduced starting in the second half of 2009. 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 Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the sale of transponders by Mabuhay Satellite. With subscriber growth being driven more by multiple SIM card ownership, especially in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for 2010 were lower as compared with 2009. We expect the decreasing trend in our cellular revenues, particularly our revenues from domestic and international text messaging services, to continue due to the popularity of unlimited offers, multiple SIM card ownership, continued decline in yields from SMS and competitive pressure. As a percentage of our total wireless revenues, service revenues increased to 99% in 2010 from 98% in 2009.

Table of Contents*Cellular Service*

Our cellular service revenues in 2010 amounted to Php86,399 million, a decrease of Php2,011 million, or 2%, from Php88,410 million in 2009. Cellular service revenues accounted for 92% of our wireless service revenues in each of 2010 and 2009.

The following tables show the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the years ended December 31, 2010 and 2009:

	2010	2009	Increase (Decrease) Amount	%
	(in millions)			
Cellular service revenues	Php86,399	Php88,410	Php (2,011)	(2)
<i>By service type</i>				
Prepaid	83,779	85,922	(2,143)	(2)
Postpaid	77,231	79,284	(2,053)	(3)
	6,548	6,638	(90)	(1)
<i>By component</i>				
Voice	83,779	85,922	(2,143)	(2)
Data	42,250	38,850	3,400	9
	41,529	47,072	(5,543)	(12)
<i>Others⁽¹⁾</i>	2,620	2,488	132	5

⁽¹⁾ 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, Wolfpac and other Smart subsidiaries.

	2010	2009	Increase (Decrease) Amount	%
Cellular subscriber base	45,636,008	41,328,641	4,307,367	10
Prepaid	45,214,433	40,893,098	4,321,335	11
<i>Smart Buddy</i>	25,293,443	23,762,814	1,530,629	6
<i>Talk N Text</i>	18,967,381	17,050,713	1,916,668	11
<i>Red Mobile</i>	953,609	79,571	874,038	1,098
Postpaid	421,575	435,543	(13,968)	(3)
Systemwide traffic volumes (in millions)				
Calls (in minutes)	26,136	16,305	9,831	60
Domestic	23,110	13,371	9,739	73
<i>Inbound</i>	1,438	1,495	(57)	(4)
<i>Outbound</i>	21,672	11,876	9,796	82
International	3,026	2,934	92	3
<i>Inbound</i>	2,817	2,738	79	3
<i>Outbound</i>	209	196	13	7
SMS/Data count (in hits)	341,113	287,921	53,192	18
Text messages	339,530	286,294	53,236	19
Domestic	339,011	285,847	53,164	19
<i>Inbound</i>	8,058	8,289	(231)	(3)
<i>Outbound</i>	330,953	277,558	53,395	19

Bucket-Priced	312,634	258,190	54,444	21
Standard	18,319	19,368	(1,049)	(5)
International	519	447	72	16
<i>Inbound</i>	<i>211</i>	<i>136</i>	<i>75</i>	<i>55</i>
<i>Outbound</i>	<i>308</i>	<i>311</i>	<i>(3)</i>	<i>(1)</i>
Value-Added Services	1,557	1,608	(51)	(3)
Financial Services	26	19	7	37

Revenues attributable to our prepaid cellular services amounted to Php77,231 million in 2010, a decrease of Php2,053 million, or 3%, as compared with Php79,284 million earned in 2009. Prepaid cellular service revenues accounted for 92% of cellular voice and data revenues in each of 2010 and 2009. Revenues attributable to Smart s postpaid cellular service amounted to Php6,548 million in 2010, a decrease of Php90 million, or 1%, as compared with Php6,638 million earned in 2009, and accounted for 8% of cellular voice and data revenues in each of 2010 and 2009.

Table of Contents*Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php3,400 million, or 9%, to Php42,250 million in 2010 from Php38,850 million in 2009 primarily due to an increase in domestic call revenues, partially offset by a decrease in international call revenues. Cellular voice services accounted for 49% of our cellular service revenues in 2010 as compared with 44% in 2009.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2010 and 2009:

	2010	2009	Increase (Decrease)	
		(in millions)	Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php 5,203	Php 5,095	Php 108	2
Outbound	20,632	16,534	4,098	25
	25,835	21,629	4,206	19
<i>International</i>				
Inbound	14,698	15,287	(589)	(4)
Outbound	1,717	1,934	(217)	(11)
	16,415	17,221	(806)	(5)
Total	Php 42,250	Php 38,850	Php 3,400	9

Domestic voice service revenues increased by Php4,206 million, or 19%, to Php25,835 million in 2010 from Php21,629 million in 2009 primarily due to an increase in domestic outbound call revenues by Php4,098 million, or 25%, to Php20,632 million in 2010 from Php16,534 million in 2009 mainly due to increased patronage of unlimited voice offerings, complemented by an increase in the revenue contribution of our inbound domestic voice service by Php108 million, or 2%, to Php5,203 million in 2010 from Php5,095 million in 2009 as a result of an increase in revenues from other domestic carriers. Outbound domestic call volumes increased by 9,796 million minutes, or 82%, to 21,672 million minutes in 2010 from 11,876 million minutes in 2009. The increase in inbound domestic call volumes from other domestic carriers was offset by the decrease in call volumes from PLDT's regular and fixed rate call packages, which resulted in the overall decrease in our inbound domestic call volumes by 57 million minutes, or 4%, to 1,438 million minutes in 2010 from 1,495 million minutes in 2009. The aggregate increase in volumes was mainly due to the higher call volumes from unlimited voice offerings.

International voice service revenues decreased by Php806 million, or 5%, to Php16,415 million in 2010 from Php17,221 million in 2009 primarily due to a decline in inbound international voice service revenues by Php589 million, or 4%, to Php14,698 million in 2010 from Php15,287 million in 2009 and due to a decline in outbound international voice service revenues by Php217 million, or 11%, to Php1,717 million in 2010 from Php1,934 million in 2009. The decline in international voice service revenues was due to the effect on our dollar-linked revenues of the appreciation of the Philippine peso relative to the U.S. dollar to a weighted average exchange rate of Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009. On the other hand, international inbound and outbound calls totaled 3,026 million minutes in 2010, an increase of 92 million minutes, or 3%, as compared with 2,934 million minutes in 2009, mainly due to an increase in our

cellular subscriber base.

Smartalk, Smart's unlimited voice offering, is available to *Smart Buddy* and *Smart Gold* subscribers nationwide. The service does not require any change in SIM or cellular phone number and enables *Smart Buddy* and *Smart Gold* subscribers to make unlimited calls to any subscriber on the Smart network. Smart subscribers could avail of the service, via registration or via retailer loading, by purchasing loads for unlimited calls which come in two denominations:

Smartalk 100 which offers five days of unlimited calls for Php100; and

Smartalk 500 which offers 30 days of unlimited calls for Php500 to any subscriber on the Smart network.

In addition, Smart also offers *Smartalk Plus*, which includes unlimited calling and on-net texting during off-peak hours and reduced rates during peak hours. *Smartalk Plus* Php100 load denomination is valid for five days and provides on-net unlimited calls and SMS from 10:00 p.m. to 5:00 p.m., and call and SMS rates of Php2.50 per minute

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and Php0.20 per SMS, respectively, from 5:01 p.m. to 9:59 p.m.

Through the *Talk N Text UnliTalk Plus 100* package, existing *Talk N Text* subscribers can avail of unlimited off-peak calls from 10:00 p.m. to 5:00 p.m. and special peak hour rates of Php2.50 per minute from 5:01 p.m. to 9:59 p.m. to any *Smart Buddy*, Smart Postpaid and *Talk N Text* subscriber. The package also includes all day unlimited texting to any *Smart Buddy*, Smart Postpaid and *Talk N Text* subscriber. Each registration to this promo is valid for five days. *Talk N Text* also has *UnliTalk 100* which offers five days of unlimited calls to *Talk N Text* and Smart subscribers.

Red Mobile Unlimited offers unlimited *Red-to-Red* call and text, and unlimited *Red-to-Red* text packages, as well as unlimited calling and texting to all Smart subscribers using a secondary network powered by Smart.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php5,543 million, or 12%, to Php41,529 million in 2010 from Php47,072 million in 2009. Cellular data services accounted for 48% and 53% of our cellular service revenues in 2010 and 2009, respectively.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2010 and 2009:

	2010	2009	Increase (Decrease) Amount	%
	(in millions)			
Text messaging				
Domestic	Php 37,478	Php 42,905	Php (5,427)	(13)
<i>Bucket-Priced</i>	23,138	26,797	(3,659)	(14)
<i>Standard</i>	14,340	16,108	(1,768)	(11)
International	1,423	1,668	(245)	(15)
	38,901	44,573	(5,672)	(13)
Value-added services				
Standard ⁽¹⁾	1,012	1,057	(45)	(4)
Rich Media ⁽²⁾	1,083	998	85	9
<i>Pasa Load</i> ⁽³⁾	493	413	80	19
	2,588	2,468	120	5
Financial services				
<i>Smart Money</i>	34	27	7	26
Mobile Banking	6	4	2	50
	40	31	9	29
Total	Php 41,529	Php 47,072	Php (5,543)	(12)

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

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

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

Text messaging-related services contributed revenues of Php38,901 million in 2010, a decrease of Php5,672 million, or 13%, as compared with Php44,573 million in 2009, and accounted for 94% and 95% of our total cellular data revenues in 2010 and 2009, respectively. The decrease in revenues from text messaging-related services resulted mainly from the continued decline in SMS yield as a result of aggressive SMS pricing offers and the increased number of subscribers who also hold SIM cards from other cellular operators and who selectively use such SIM cards. Other factors that contributed to this decline in revenues were the prescribed extension of load validity periods and cheaper alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php23,138 million in 2010, a decrease of Php3,659 million, or 14%, as compared with Php26,797 million in 2009. Likewise, standard text messaging revenues decreased by Php1,768 million, or 11%, to Php14,340 million in 2010 from Php16,108 million in 2009. The decrease in international text messaging revenues was mainly due to the decline in SMS yield as a result of the bucket offers as well as the increase in the average roaming SMS settlement cost.

Bucket-priced text messages in 2010 totaled 312,634 million, an increase of 54,444 million, or 21%, as compared with 258,190 million in 2009, primarily due to the continued patronage of bucket and unlimited text messaging offers. Standard text messages totaled 18,319 million in 2010, a decrease of 1,049 million, or 5%, as compared with 19,368 million in 2009, as a result of subscribers moving to bucket-priced text services.

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VAS contributed revenues of Php2,588 million in 2010, an increase of Php120 million, or 5%, as compared with Php2,468 million in 2009, primarily due to an increase in the rich media VAS, particularly mobile internet browsing, which increased by Php195 million, or 37%, to Php725 million in 2010 from Php530 million in 2009, and *Pasa Load*, partially offset by lower usage of standard VAS.

Subscriber Base, ARPU and Churn Rates

As at December 31, 2010, Smart, including *Talk N Text* and *Red Mobile* subscribers totaled 45,636,008, an increase of 4,307,367, or 10%, over their combined cellular subscriber base of 41,328,641 as at December 31, 2009. Our cellular prepaid subscriber base grew by 11% to 45,214,433 as at December 31, 2010 from 40,893,098 as at December 31, 2009, while our cellular postpaid subscriber base decreased by 13,968, or 3%, to 421,575 as at December 31, 2010 from 435,543 as at December 31, 2009. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2010 and 2009.

Our net subscriber activations for the years ended December 31, 2010 and 2009 were as follows:

			Increase (Decrease)	
	2010	2009	Amount	%
Prepaid	4,321,335	6,066,630	(1,745,295)	(29)
<i>Smart Buddy</i>	1,530,629	3,261,197	(1,730,568)	(53)
<i>Talk N Text</i>	1,916,668	2,742,220	(825,552)	(30)
<i>Red Mobile</i>	874,038	63,213	810,825	1,283
Postpaid	(13,968)	37,407	(51,375)	(137)
Total	4,307,367	6,104,037	(1,796,670)	(29)

Our quarterly net subscriber activations (reductions) over the eight quarters in 2010 and 2009 were as follows:

	2010				2009			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,868,812	2,144,244	(1,212,389)	1,520,668	1,692,767	1,575,585	621,154	2,177,124
<i>Smart Buddy</i>	1,271,132	730,346	(588,862)	118,013	419,821	523,496	644,932	1,672,948
<i>Talk N Text</i>	394,984	562,375	128,786	830,523	1,256,907	1,019,162	(32,419)	498,570
<i>Red Mobile</i>	202,696	851,523	(752,313)	572,132	16,039	32,927	8,641	5,606
Postpaid	9,870	(5,569)	(21,266)	2,997	9,328	17,746	6,806	3,527
Total	1,878,682	2,138,675	(1,233,655)	1,523,665	1,702,095	1,593,331	627,960	2,180,651

Prepaid and postpaid subscribers reflected net activations of 4,321,335 and net reductions of 13,968, respectively, in 2010 as compared with net activations of 6,066,630 and 37,407, respectively, in 2009.

For *Smart Buddy*, the average monthly churn rate in 2010 and 2009 was 5.0% and 4.2%, respectively, while the average monthly churn rate for *Talk N Text* subscribers was 5.3% and 5.0% in 2010 and 2009, respectively. The average monthly churn rate for *Red Mobile* subscribers was 26.9% and 12.3% in 2010 and 2009, respectively.

The average monthly churn rate for Smart's postpaid subscribers is 2.4% and 1.9% for 2010 and 2009, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within

30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities is implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

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The following table summarizes our average monthly cellular ARPUs for the years ended December 31, 2010 and 2009:

	Gross ⁽¹⁾		Decrease		Net ⁽²⁾		Decrease	
	2010	2009	Amount	%	2010	2009	Amount	%
Prepaid								
Smart Buddy	Php 220	Php 261	Php (41)	(16)	Php 174	Php 207	Php(33)	(16)
Talk N Text	139	161	(22)	(14)	115	133	(18)	(14)
Red Mobile	11	20	(9)	(45)	9	13	(4)	(31)
Prepaid Blended ⁽³⁾	183	218	(35)	(16)	147	175	(28)	(16)
Postpaid Smart	1,678	1,817	(139)	(8)	1,257	1,313	(56)	(4)
Prepaid and Postpaid Blended ⁽⁴⁾	198	235	(37)	(16)	158	188	(30)	(16)

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

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

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

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

Prepaid service revenues consist mainly of charges for the subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in 2010 was Php183, a decrease of 16%, as compared with Php218 in 2009. The decrease was primarily due to a decline in the average outbound domestic text messaging revenue per subscriber, as well as a drop in the average inbound international and domestic voice revenue per subscriber in 2010 as compared with the same period in 2009. On a net basis, prepaid blended average monthly ARPU in 2010 was Php147, a decrease of 16%, as compared with Php175 in 2009.

Gross average monthly ARPU for postpaid subscribers decreased by 8% to Php1,678 and net average monthly ARPU also decreased by 4% to Php1,257 in 2010 as compared with Php1,817 and Php1,313 in 2009, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php198 in 2010, a decrease of 16%, as compared with Php235 in 2009. Likewise, the net average monthly prepaid and postpaid blended ARPU decreased by 16% to Php158 in 2010 from Php188 in 2009.

Our average monthly prepaid and postpaid ARPUs per quarter in 2010 and 2009 were as follows:

	Smart Buddy		Prepaid Talk N Text		Red Mobile		Postpaid Smart	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
2010								
First Quarter	Php232	Php184	Php140	Php115	Php11	Php8	Php1,686	Php1,286
Second Quarter	224	179	141	116	4	3	1,665	1,257
Third Quarter	207	163	135	112	6	5	1,661	1,229
Fourth Quarter	215	171	140	116	22	19	1,702	1,256
2009								
First Quarter	272	216	176	144	25	14	1,863	1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278

Third Quarter	249	197	148	122	19	12	1,801	1,307
Fourth Quarter	252	203	152	127	18	15	1,791	1,304

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

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

Wireless Broadband, Satellite and Other Services

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

Wireless Broadband

Revenues from our wireless broadband services increased by Php903 million, or 17%, to Php6,286 million in 2010 from Php5,383 million in 2009, primarily due to the growth in wireless broadband subscribers.

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SBI offers a number of wireless broadband services and had a total of 1,355,977 subscribers as at December 31, 2010, an increase of 318,257 subscribers, or 31%, as compared with 1,037,720 subscribers as at December 31, 2009. Our postpaid wireless broadband subscriber base decreased by 5,280 subscribers, or 1%, to 430,757 subscribers as at December 31, 2010 from 436,037 subscribers as at December 31, 2009, while our prepaid wireless broadband subscriber base increased by 323,537 subscribers, or 54%, to 925,220 subscribers as at December 31, 2010 from 601,683 subscribers as at December 31, 2009.

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

SBI offers mobile internet access through *Smart Bro Plug-It*, a wireless modem which provides instant connectivity in places where there is Smart network coverage. *Smart Bro Plug-It* is 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 *Smart Bro Plug-It Prepaid* subscribers with specific internet usage needs. We also have an additional array of load packages that offer per minute-based charging and longer validity periods.

Smart Bro WiMAX service is available in Metro Manila and selected key cities in Visayas and Mindanao. *WiMAX*, which stands for Worldwide Interoperability for Microwave Access, is a wide area network technology that allows for a more efficient radio-band usage, an improved interference avoidance and higher data rates over a longer distance. *WiMAX* was initially offered at Plan 999 for unlimited broadband usage with a burst speed of up to 1 Mbps. Additional unlimited broadband packages are also available under Plan 799 and Plan 1995 with speeds of up to 512 kbps and up to 2 Mbps, respectively.

Satellite and Other Services

Revenues from our satellite and other services decreased by Php891 million, or 44%, to Php1,145 million in 2010 from Php2,036 million in 2009, primarily due to the lower satellite transponder rental revenues as a result of the sale of transponders by Mabuhay Satellite in 2009 and the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 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 decreased by Php338 million, or 20%, to Php1,357 million in 2010 as compared with Php1,695 million in 2009 primarily due to the lower combined average retail price of cellular phonekits and SIM-packs, as well as broadband data modems.

Expenses

Expenses associated with our wireless business in 2010 amounted to Php49,632 million, a decrease of Php2,800 million, or 5%, from Php52,432 million in 2009. A significant portion of this decrease was attributable to lower expenses related to rent, asset impairment, cost of sales, taxes and licenses, and selling and promotions, partially offset by the higher expenses related to repairs and maintenance, compensation and employee benefits, professional and other contracted services, and insurance and security services. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 54% in 2010 and 2009, respectively.

Cellular business expenses accounted for 83% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 17% of our wireless business expenses in 2010 as compared with 85% and 15%, respectively, in 2009.

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The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
			(in millions)		Amount	%
Depreciation and amortization	Php 13,243	27	Php 13,237	25	Php 6	
Rent	9,038	18	10,553	20	(1,515)	(14)
Compensation and employee benefits ⁽¹⁾	6,385	13	6,059	12	326	5
Repairs and maintenance	5,058	10	4,340	8	718	17
Selling and promotions	3,809	8	4,051	8	(242)	(6)
Cost of sales	3,587	7	4,363	8	(776)	(18)
Professional and other contracted services	3,113	6	2,904	6	209	7
Taxes and licenses	1,683	3	2,022	4	(339)	(17)
Communication, training and travel	948	2	972	2	(24)	(2)
Insurance and security services	831	2	781	1	50	6
Asset impairment	824	2	2,026	4	(1,202)	(59)
Amortization of intangible assets	134		126		8	6
Other expenses	979	2	998	2	(19)	(2)
Total	Php 49,632	100	Php 52,432	100	Php (2,800)	(5)

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

Depreciation and amortization charges increased by Php6 million to Php13,243 million in 2010 principally due to an increase in depreciation on the growing asset base of 3G and 2G networks.

Rent expenses decreased by Php1,515 million, or 14%, to Php9,038 million primarily due to decrease in domestic leased circuits partially offset by the increase in cell site rental charges as a result of an increase in the number of cell sites. In 2010, we had 6,037 cell sites, 10,316 cellular/mobile broadband base stations and 2,519 fixed wireless broadband-enabled base stations, as compared with 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations in 2009.

Compensation and employee benefits expenses increased by Php326 million, or 5%, to Php6,385 million primarily due to higher MRP costs and higher salaries and employee benefits as a result of merit-based increases, partially offset by the lower provision for LTIP and pension benefits. Employee headcount of Smart and its subsidiaries decreased to 5,165 in 2010 as compared with 5,454 in 2009.

Repairs and maintenance expenses increased by Php718 million, or 17%, to Php5,058 million mainly due to an increase in cellular network facilities and software maintenance expenses, higher site electricity cost and higher fuel costs for power generation, partly offset by lower maintenance charges for computer hardware and broadband network facilities.

Selling and promotion expenses decreased by Php242 million, or 6%, to Php3,809 million primarily due to lower spending on advertising and promotional campaigns and commission expenses.

Cost of sales decreased by Php776 million, or 18%, to Php3,587 million primarily due to the lower combined average cost of cellular phonekits and SIM-packs, the lower average cost of cellular retention packages and the lower average cost of broadband modems.

Professional and other contracted service fees increased by Php209 million, or 7%, to Php3,113 million primarily due to the increase in consultancy fees, management fees, corporate membership fees, outsourced service fees and other professional fees, partly offset by the lower contracted service fees, customer relationship management service fees and technical service fees.

Taxes and licenses expenses decreased by Php339 million, or 17%, to Php1,683 million primarily due to lower non-creditable input taxes and business-related license fees.

Communication, training and travel expenses decreased by Php24 million, or 2%, to Php948 million primarily due to lower communication, training and travel expenses.

Insurance and security services expenses increased by Php50 million, or 6%, to Php831 million primarily due to higher site security expense and insurance premiums, partially offset by lower office security expense.

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Asset impairment decreased by Php1,202 million, or 59%, to Php824 million mainly due to the impairment loss recognized on the investment in Blue Ocean Wireless in 2009, lower provision for uncollectible receivables from subscribers and lower provision for obsolescence of slow-moving commercial and network inventory in 2010.

Amortization of intangible assets increased by Php8 million, or 6%, to Php134 million primarily due to the amortization of intangible assets relating to the acquisition of Chikka and PDSI.

Other expenses decreased by Php19 million, or 2%, to Php979 million primarily due to lower various business and operational-related expenses.

Other Income

The following table summarizes the breakdown of our total wireless-related other income net for the years ended December 31, 2010 and 2009:

	2010	2009	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings (losses) of associates	Php 1,222	Php (68)	Php 1,290	1,897
Foreign exchange gains net	865	387	478	124
Interest income	698	1,139	(441)	(39)
Gains on derivative financial instruments net	3	1,166	(1,163)	(100)
Financing costs net	(2,683)	(2,619)	(64)	2
Others	1,130	1,144	(14)	(1)
Total	Php 1,235	Php 1,149	Php 86	7

Our wireless business other income net amounted to Php1,235 million in 2010, an increase of Php86 million, or 7%, from Php1,149 million in 2009 primarily due to the combined effects of the following: (i) equity share in net earnings of associates of Php1,222 million in 2010 as compared with equity share in net losses of Php68 million in 2009 mainly due to PCEV's share in net earnings of Meralco and Beacon; (ii) net increase in foreign exchange gains by Php478 million on account of higher gains on revaluation of net foreign currency-denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (iii) decrease in other income by Php14 million mainly due to a gain on sale of investment in 2009, partially offset by a gain on sale of fixed assets in 2010; (iv) higher net financing costs by Php64 million primarily due to higher interest on loans and other related items on account of Smart's higher average loan balances and increase in accretion of financial liabilities partly offset by the increase in capitalized interest; (v) decrease in interest income by Php441 million mainly due to Smart's lower average level of short-term investments, as well as 2009 interest income recognized on the exchangeable note purchased by PCEV; and (vi) lower gain on derivative financial instruments by Php1,163 million mainly due to a gain in 2009 in the mark-to-market valuation relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009.

Meralco's reported and core income amounted to Php9,685 million and Php12,155 million for the year ended December 31, 2010, respectively, as compared with Php6,005 million and Php7,003 million for the year ended December 31, 2009, respectively. These results reflect the higher volume of energy sold resulting from unusually high temperatures, higher consumption brought about by election spending in the first half of 2010 and of the upturn in business expansions within the franchise area throughout the year. In addition, the results were boosted by the increase in billed customers, as well as the implementation of the distribution rate adjustments approved by the Energy Regulatory Commission. PCEV's share in the reported and core income of Meralco (PCEV acquired 223 million Meralco shares on July 14, 2009, of which 154.2 million shares were transferred to Beacon, where PCEV acquired a 50% equity interest effective March 31, 2010), including share in Beacon's December 31, 2010 results of operations, amounted to Php1,229 million and Php1,928 million, respectively, in 2010. PCEV's share in Meralco's reported and core income for the period from July 14, 2009 to December 31, 2009 amounted to Php398 million and Php534

million, respectively.

Provision for Income Tax

Provision for income tax decreased by Php1,100 million, or 9%, to Php11,414 million in 2010 from Php12,514 million in 2009 due to tax recognized on the transfer of the *Talk N Text* business to Smart in 2009. In 2010, the effective tax rate for our wireless business was 24% as compared with 27% in 2009. Smart and certain of its subsidiaries opted to use the optional standard deduction, or OSD, method in computing their taxable income in 2010 and 2009.

Table of Contents**Net Income**

Our wireless business recorded a net income of Php35,376 million in 2010, an increase of Php1,649 million, or 5%, from Php33,727 million recorded in 2009 on account of a decrease in the wireless-related expenses by Php2,800 million, the lower provision for income tax by Php1,100 million and an increase in other income net by Php86 million, partially offset by a decrease in wireless revenues by Php2,337 million.

Adjusted EBITDA

Our wireless business adjusted EBITDA decreased by Php466 million, or 1%, to Php58,945 million in 2010 from Php59,411 million in 2009 mainly due to a decline in our wireless revenues as a result of lower revenues from our cellular services, and satellite and other revenues, and higher expenses related to repairs and maintenance, and compensation and employee benefits, partly offset by lower expenses particularly rent, cost of sales, taxes and licenses, selling and promotions, and cost of inventory obsolescence.

Core Income

Our wireless business core income increased by Php2,392 million, or 7%, to Php35,418 million in 2010 from Php33,026 million in 2009 on account of a decrease in the wireless-related expenses and lower provision for income tax, partially offset by a decrease in wireless revenues.

Fixed Line**Revenues**

Revenues generated from our fixed line business amounted to Php48,951 million in 2010, a decrease of Php2,422 million, or 5%, from Php51,373 million in 2009. The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease) Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php 15,321	31	Php 15,681	31	Php (360)	(2)
International long distance	5,224	11	6,255	12	(1,031)	(16)
National long distance	4,690	10	5,969	12	(1,279)	(21)
Data and other network	21,646	44	21,567	42	79	
Miscellaneous	1,728	3	1,668	3	60	4
	48,609	99	51,140	100	(2,531)	(5)
Non-Service Revenues:						
Sale of computers, PLP units and SIM cards	342	1	233		109	47
Total Fixed Line Revenues	Php 48,951	100	Php 51,373	100	Php (2,422)	(5)

Service Revenues

Our fixed line business provides local exchange service, national and international long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues decreased by Php2,531 million, or 5%, to Php48,609 million in 2010 from Php51,140 million in 2009 due to decreases in revenues from our national long distance, international long distance and local exchange services, partially offset by the increase in revenues from our data and other network services, as a result of higher revenues contributed by our DSL and i-Gate services, and miscellaneous services.

Table of Contents*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, 2010 and 2009:

	2010	2009	Increase (Decrease)	
			Amount	%
Total local exchange service revenues (in millions)	Php 15,321	Php 15,681	Php (360)	(2)
Number of fixed line subscribers	1,822,105	1,816,541	5,564	
Postpaid	1,703,998	1,637,981	66,017	4
Prepaid	118,107	178,560	(60,453)	(34)
Number of fixed line employees	7,395	7,947	(552)	(7)
Number of fixed line subscribers per employee	246	229	17	7

Revenues from our local exchange service decreased by Php360 million, or 2%, to Php15,321 million in 2010 from Php15,681 million in 2009 primarily due to 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 and service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Call All* service promotions related to *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues was 31% in each of 2010 and 2009.

PLP offers both postpaid and prepaid wireless services, which allows subscribers to bring the telephone set anywhere within the home zone area.

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. Another postpaid service we offer is the *Call All* plan in which *PLP* is bundled with PLDT fixed line service for a monthly service fee of Php850. PLDT also offers the *Internet@Home* service, which is a voice and data bundle offered in two plans with monthly service fees of Php990 and Php1,299.

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 denominations, respectively. There were a total of 304,624 active *PLP* subscribers as at December 31, 2010, of which 271,432 and 33,192 were postpaid and prepaid subscribers, respectively, compared to a total of 224,165 active *PLP* subscribers as at December 31, 2009, of which 171,605 and 52,560 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	2010	2009	Decrease	
			Amount	%
Total international long distance service revenues (in millions)	Php5,224	Php6,255	Php(1,031)	(16)
Inbound	4,499	5,198	(699)	(13)
Outbound	725	1,057	(332)	(31)
International call volumes (in million minutes, except call ratio)	1,714	1,863	(149)	(8)
Inbound	1,515	1,653	(138)	(8)
Outbound	199	210	(11)	(5)

Inbound-outbound call ratio 7.6:1 7.9:1

Our total international long distance service revenues decreased by Php1,031 million, or 16%, to Php5,224 million in 2010 from Php6,255 million in 2009 primarily due to the decrease in the average collection and settlement rates, the unfavorable effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009 and the decrease in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues accounted for 11% and 12% in 2010 and 2009, respectively.

Our revenues from inbound international long distance service decreased by Php699 million, or 13%, to Php4,499 million in 2010 from Php5,198 million in 2009 due to the decline in inbound call volumes and the effect of

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the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php332 million, or 31%, to Php725 million in 2010 from Php1,057 million in 2009 primarily due to lower average collection rate in dollar terms, the effect of the appreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php45.12 for the year ended December 31, 2010 from Php47.64 for the year ended December 31, 2009, resulting in a decrease in the average billing rates to Php45.31 in 2010 from Php47.78 in 2009, and the decline in outbound call volumes.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2010 and 2009:

	2010	2009	Decrease Amount	%
Total national long distance service revenues (in millions)	Php4,690	Php5,969	Php(1,279)	(21)
National long distance call volumes (in million minutes)	1,290	1,822	(532)	(29)

Our national long distance service revenues decreased by Php 1,279 million, or 21%, to Php4,690 million in 2010 from Php5,969 million in 2009 primarily due to a decrease in call volumes, partially offset by an increase in the average revenue per minute for our national long distance services due to cessation of certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 10% in 2010 from 12% in 2009.

Data and Other Network Services

The following table shows information of our data and other network service revenues for the years ended December 31, 2010 and 2009:

	2010	2009	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php 21,646	Php 21,567	Php 79	
Domestic	15,637	16,391	(754)	(5)
<i>Broadband</i>	8,511	7,232	1,279	18
DSL	8,263	7,024	1,239	18
WeRoam	248	208	40	19
<i>Leased Lines and Others</i>	7,126	9,159	(2,033)	(22)
International				
<i>Leased Lines and Others</i>	6,009	5,176	833	16
Subscriber base:				
<i>Broadband</i>	665,027	576,687	88,340	15
DSL	643,048	559,664	83,384	15
WeRoam	21,979	17,023	4,956	29
<i>SWUP</i>	15,641	12,383	3,258	26

Our data and other network services posted revenues of Php21,646 million in 2010, an increase of Php79 million from Php21,567 million in 2009 primarily due to an increase in domestic broadband services, owing to higher revenues from *PLDT DSL*, as well as an increase in international data revenues, particularly from i-Gate, partially offset by a decrease in domestic leased line revenues resulting from the lower revenue contribution of Diginet, our

domestic leased private line service. The percentage contribution of this service segment to our fixed line service revenues increased to 44% in 2010 from 42% in 2009.

Domestic

Domestic data services contributed Php15,637 million in 2010, a decrease of Php754 million, or 5%, as compared with Php16,391 million in 2009 mainly due to lower Diginet revenues partially offset by the continued growth in DSL, *Shops.Work Unplugged*, or *SWUP*, internet protocol-virtual private network, or IP-VPN, and Metro Ethernet subscribers as customer locations and bandwidth requirements continued to expand and demand for

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offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services decreased to 72% in 2010 from 76% in 2009.

Broadband

Broadband data services include *PLDT DSL* broadband internet service, which is intended for individual internet users, small and medium enterprises, and large corporate with multiple branches, and *PLDT WeRoam*, our mobile broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). Broadband data revenues amounted to Php8,511 million in 2010, an increase of Php1,279 million, or 18%, from Php7,232 million in 2009 primarily due to the higher revenue contribution of DSL which contributed revenues of Php8,263 million in 2010 from Php7,024 million in 2009 as a result of the increase in the number of subscribers, partially offset by the lower ARPU as a result of the launching of lower-priced promotional plans. DSL revenues accounted for 38% and 33% of total data and other network service revenues in 2010 and 2009, respectively. DSL subscribers increased by 15% to 643,048 subscribers as at December 31, 2010 from 559,664 subscribers in 2009. *WeRoam* revenues amounted to Php248 million in 2010 from Php208 million in 2009 as subscribers increased by 29% to 21,979 subscribers in 2010 from 17,023 subscribers in 2009.

Leased Lines and Others

Leased lines and other data services include: (1) Diginet, our domestic private leased line service providing Smart's fiber optic and leased line data requirements; (2) IP-VPN, a managed corporate IP network that offers a secure means to access corporate network resources; (3) Metro Ethernet, our high-speed wide area networking services that enable mission-critical data transfers; (4) *Shops.Work*, our connectivity solution for retailers and franchisers that links company branches to their head office; and (5) *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, 2010, *SWUP* has a total subscriber base of 15,641 up from 12,383 subscribers in 2009. Leased lines and other data revenues amounted to Php7,126 million in 2010, a decrease of Php2,033 million, or 22%, from Php9,159 million in 2009 primarily due to a decrease in Diginet revenues partially offset by the higher revenues from IP-VPN and Metro Ethernet. The percentage contribution of leased lines and other data service revenues to total data and other network services accounted for 33% and 42% in 2010 and 2009, respectively.

*International**Leased Lines and Others*

International leased lines and other data services consist mainly of: (1) i-Gate, our premium dedicated internet access service that provides high speed, reliable and managed connectivity to the global internet, and is intended for enterprises and VAS providers; (2) Fibernet, which provides cost-effective and reliable 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 Php833 million, or 16%, to Php6,009 million in 2010 from Php5,176 million in 2009 primarily due to an increase in i-Gate revenues. The percentage contribution of international data service revenues to total data and other network service revenues accounted for 28% and 24% in 2010 and 2009, respectively.

Miscellaneous Services

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues increased by Php60 million in 2010, or 4%, to Php1,728 million from Php1,668 million in 2009 mainly due to an increase in rental income owing to higher co-location charges and facilities management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 4% in 2010 from 3% in 2009.

Non-service Revenues

Non-service revenues increased by Php109 million, or 47%, to Php342 million in 2010 from Php233 million in 2009 primarily due to higher sales of *PLP* units and SIM cards.

Table of Contents**Expenses**

Expenses related to our fixed line business totaled Php38,745 million in 2010, a decrease of Php336 million, or 1%, as compared with Php39,081 million in 2009. The decrease was primarily due to lower expenses related to asset impairment, rent, selling and promotions, and insurance and security services, partly offset by higher expenses related to compensation and employee benefits, professional and other contracted services, depreciation and amortization, repairs and maintenance, and cost of sales. Expenses associated with our fixed line business accounted for 79% and 76% in 2010 and 2009, respectively, of our total fixed line revenues.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	
			(in millions)		Amount	%
Depreciation and amortization	Php 12,292	32	Php 11,619	30	Php 673	6
Compensation and employee benefits ⁽¹⁾	11,692	30	10,637	27	1,055	10
Repairs and maintenance	4,527	12	4,345	11	182	4
Professional and other contracted services	3,199	8	2,485	6	714	29
Rent	2,469	6	2,749	7	(280)	(10)
Selling and promotions	1,376	3	1,590	4	(214)	(13)
Taxes and licenses	780	2	755	2	25	3
Communication, training and travel	627	2	658	2	(31)	(5)
Insurance and security services	434	1	488	1	(54)	(11)
Cost of sales	433	1	310	1	123	40
Asset impairment	291	1	2,901	8	(2,610)	(90)
Other expenses	625	2	544	1	81	15
Total	Php 38,745	100	Php 39,081	100	Php (336)	(1)

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

Depreciation and amortization charges increased by Php673 million, or 6%, to Php12,292 million due to a higher depreciable asset base in 2010 as compared with 2009.

Compensation and employee benefits expenses increased by Php1,055 million, or 10%, to Php11,692 million primarily due to higher MRP costs, and salaries and employee benefits due to collective bargaining agreement-related increases, partially offset by lower provisions for pension costs and LTIP. See Note 3 Management's Use of Judgments, Estimates and Assumptions and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements for further discussion.

Repairs and maintenance expenses increased by Php182 million, or 4%, to Php4,527 million primarily due to higher electricity charges, domestic cable and wire facilities, and higher building repairs and maintenance costs.

Professional and other contracted services increased by Php714 million, or 29%, to Php3,199 million primarily due to higher legal fees and contracted services and technical service fees for customer relationship management outsourcing project services, partially offset by lower management fees.

Rent expenses decreased by Php280 million, or 10%, to Php2,469 million due to a decrease in international leased circuit rental charges, partially offset by an increase in site and domestic leased circuit rental charges.

Selling and promotion expenses decreased by Php214 million, or 13%, to Php1,376 million primarily due to lower spending on advertising and promotions, and commission expenses, partially offset by higher public relations expenses.

Taxes and licenses increased by Php25 million, or 3%, to Php780 million as a result of higher business-related taxes.

Communication, training and travel expenses decreased by Php31 million, or 5%, to Php627 million mainly due to lower foreign travel expenses, and mailing and courier charges, partially offset by higher foreign training expenses, fuel consumption and local travel expenses.

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Insurance and security services decreased by Php54 million, or 11%, to Php434 million primarily due to lower insurance and bond premiums, and lower security services.

Cost of sales increased by Php123 million, or 40%, to Php433 million due to higher cost of SIM and *PLP* units sold for *PLP* prepaid subscribers partially offset by lower computer-bundled sales in relation to our DSL promotion.

Asset impairment decreased by Php2,610 million, or 90%, to Php291 million mainly due to impairment loss on priority deposit to ProtoStar in 2009, partially offset by higher impairment charges on payphone assets and investments in PLDT Italy in 2010.

Other expenses increased by Php81 million, or 15%, to Php625 million due to increases in various business and fixed line operational-related expenses.

Other Expenses

The following table summarizes the breakdown of our total fixed line-related other expenses net for the years ended December 31, 2010 and 2009:

	2010	2009	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains net	Php 1,008	Php 532	Php 476	89
Interest income	484	402	82	20
Losses on derivative financial instruments net	(1,746)	(2,180)	434	(20)
Financing costs net	(3,856)	(3,796)	(60)	2
Equity share in net losses of joint ventures		(98)	98	100
Others	1,164	970	194	20
Total	(Php 2,946)	(Php 4,170)	Php 1,224	(29)

Our fixed line business other expenses net amounted to Php2,946 million in 2010, a decrease of Php1,224 million, or 29%, from Php4,170 million in 2009. The change was due to the combined effects of the following:

(i) net increase in foreign exchange gains by Php476 million on account of higher gains on net foreign exchange revaluation of foreign-currency denominated liabilities due to the effect of the appreciation of the Philippine peso to the U.S. dollar; (ii) lower loss on derivative financial instruments by Php434 million in 2010 as compared with 2009 due to lower mark-to-market loss and hedge costs of PLDT resulting from the partial unwinding of principal-only currency swap contracts; (iii) increase in other income by Php194 million mainly due to the partial recovery of priority deposit from ProtoStar, higher miscellaneous income from consultancy, and subsidiaries and affiliates;

(iv) share in net losses of joint ventures of Php98 million in 2009; (v) an increase in interest income by Php82 million due to higher average interest rate and higher level of cash balances; and (vi) an increase in net financing costs by Php60 million due to an increase in interest expense on loans and related items net on account of a higher level of average loan balances as well as lower capitalized interest, partially offset by lower level of average interest rate.

Provision for Income Tax

Provision for income tax amounted to Php2,050 million in 2010, a decrease of Php208 million, or 9%, as compared with Php2,258 million in 2009 primarily due to lower taxable income.

Net Income

In 2010, our fixed line business contributed a net income of Php5,210 million, a decrease of Php654 million, or 11%, as compared with Php5,864 million in 2009 primarily as a result of the decrease in fixed line revenues by Php2,422 million, partially offset by decreases in other expenses net by Php1,224 million, lower fixed line-related expenses by Php336 million and lower provision for income tax by Php208 million.

Adjusted EBITDA

Our fixed line business adjusted EBITDA decreased by Php2,547 million, or 10%, to Php22,668 million in 2010 from Php25,215 million in 2009 primarily due to a decline in our fixed line service revenues as a result of lower revenues from our national long distance, international long distance and local exchange services, and higher expenses particularly compensation and employee benefits, and professional and other contracted services, partly offset by lower expenses related to doubtful accounts, rent, and selling and promotions.

Table of Contents**Core Income**

Our fixed line business core income decreased by Php1,922 million in 2010, or 26%, to Php5,580 million from Php7,502 million in 2009 primarily as a result of the decrease in fixed line revenues and an increase in fixed line-related expenses, partially offset by lower provision for income tax.

Information and Communications Technology**Revenues**

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

In 2010, our ICT business generated revenues of Php11,358 million, a decrease of Php191 million, or 2%, as compared with Php11,549 million in 2009. This decrease was primarily due to the decline in the revenue contribution of our customer relationship management and internet and online gaming, as well as lower point-product sales, partially offset by the continued growth of our data center and knowledge processing solutions businesses service revenues.

The following table summarizes our total revenues from our ICT business for the years ended December 31, 2010 and 2009 by service segment:

	2010	%	2009	%	Increase (Decrease) Amount	%
	(in millions)					
Service Revenues:						
Knowledge processing solutions	Php 5,289	47	Php 5,215	45	Php 74	1
Customer relationship management	2,823	25	3,319	29	(496)	(15)
Internet and online gaming	1,059	9	1,113	10	(54)	(5)
Data center and others	1,506	13	1,204	10	302	25
	10,677	94	10,851	94	(174)	(2)
Non-Service Revenues:						
Point-product sales	681	6	698	6	(17)	(2)
Total ICT Revenues	Php 11,358	100	Php 11,549	100	Php (191)	(2)

Service Revenues

Service revenues generated by our ICT business segment amounted to Php10,677 million in 2010, a decrease of Php174 million, or 2%, as compared with Php10,851 million in 2009 primarily as a result of the decline in revenues from our customer relationship management and internet and online gaming businesses, partially offset by the increase in co-location and disaster recovery revenues from our data center business, as well as the higher revenues from our knowledge processing solutions business. As a percentage of our total ICT business revenues, service revenues accounted for 94% in each of 2010 and 2009.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. The knowledge processing solutions business contributed revenues of Php5,289 million in 2010, an increase of Php74 million, or 1%, from Php5,215 million in 2009. Dollar revenues increased by 8% offset by the appreciation of the Philippine peso to the U.S. dollar by 6%. Additional revenues from Laguna Medical (acquired in September 2009), Medical Billing and Content Solutions were recognized in 2010. Knowledge processing solutions business revenues accounted for 50% and 48% of total service revenues of our ICT business in 2010 and 2009, respectively.

Customer Relationship Management

We provide our customer relationship management business primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php496 million, or 15%, to Php2,823 million in 2010 from Php3,319 million in 2009 primarily due to lower dollar-denominated revenues by 14%, lower domestic sales by 1%, and the effect of the appreciation of the Philippine peso to the U.S. dollar. In total, we own and operate 5,565 seats with an average of 4,592 customer service representatives, or CSRs, in 2010, as compared with 7,140 seats with an average of 5,190 CSRs in 2009. SPi CRM had six and seven customer relationship management sites as

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at December 31, 2010 and 2009, respectively. Customer relationship management business revenues accounted for 26% and 31% of total service revenues of our ICT business in 2010 and 2009, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming business decreased by Php54 million, or 5%, to Php1,059 million in 2010 from Php1,113 million in 2009 primarily due to the absence of the introduction of major games in 2010, as well as the higher electricity cost, which forced internet cafés to shorten operating hours. Our internet and online gaming business revenues accounted for 10% of total service revenues of our ICT business in each of 2010 and 2009.

Data Center and Others

ePLDT operates an internet data center under the brand name *Vitroä*, which provides co-location or rental services, server hosting, disaster recovery and business continuity services, intrusion detection, security services, such as firewalls and managed firewalls, and other data services. Our data center contributed revenues of Php1,506 million in 2010, an increase of Php302 million, or 25%, from Php1,204 million in 2009 primarily due to an increase in co-location or rental and disaster recovery services revenues. Our data center revenues accounted for 14% and 11% of total service revenues of our ICT business in 2010 and 2009, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. Non-service revenues generated by our ICT business decreased by Php17 million, or 2%, to Php681 million in 2010 from Php698 million in 2009 primarily due to the lower revenues from sales of software licenses.

Expenses

Expenses associated with our ICT business totaled Php11,944 million in 2010, an increase of Php655 million, or 6%, as compared with Php11,289 million in 2009, primarily due to the higher expenses related to asset impairment, repairs and maintenance, amortization of intangible assets, and insurance and security services, partially offset by the lower compensation and employee benefits, professional and other contracted services, cost of sales, communication, training and travel, and rent expenses. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 105% and 98% in 2010 and 2009, respectively.

The following table shows the breakdown of our total ICT-related expenses for the years ended December 31, 2010 and 2009 and the percentage of each expense item to the total:

	2010	%	2009	%	Increase (Decrease)	%
			(in millions)		Amount	
Compensation and employee benefits ⁽¹⁾	Php 6,000	50	Php 6,418	57	Php (418)	(7)
Asset impairment	1,323	11	134	1	1,189	887
Repairs and maintenance	752	6	669	6	83	12
Cost of sales	751	6	799	7	(48)	(6)
Depreciation and amortization	742	6	751	7	(9)	(1)
Rent	687	6	716	6	(29)	(4)
Professional and other contracted services	500	4	592	5	(92)	(16)
Communication, training and travel	461	4	500	4	(39)	(8)
Amortization of intangible assets	254	2	242	2	12	5
Taxes and licenses	108	1	104	1	4	4
Selling and promotions	103	1	113	1	(10)	(9)
	79	1	68	1	11	16

Insurance and security services						
Other expenses	184	2	183	2	1	1
Total	Php 11,944	100	Php 11,289	100	Php 655	6

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

Compensation and employee benefits decreased by Php418 million, or 7%, to Php6,000 million mainly due to a decline in salaries and employee benefits, and the lower provision for LTIP, partially offset by the increase in MRP costs and pension benefits. Although ePLDT and its subsidiaries' employee headcount increased by 629 to

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16,210 in 2010 as compared with 15,581 in 2009, related costs decreased due to lower labor cost per head, particularly from our knowledge processing solutions business.

Asset impairment increased by Php1,189 million, or 887%, to Php1,323 million primarily due to impairment of goodwill and other intangible assets in SPI related to its investment in CyMed and impairment of goodwill in ePLDT's investment in BayanTrade and Level Up!.

Repairs and maintenance expenses increased by Php83 million, or 12%, to Php752 million primarily due to the higher office and site electricity charges, and higher IT software repairs and maintenance costs particularly from our data center business partially offset by a decrease in buildings repairs and maintenance costs, janitorial services and lower purchases of low-value softwares.

Cost of sales decreased by Php48 million, or 6%, to Php751 million primarily due to the lower volume of sales of software licenses and hardware products.

Depreciation and amortization charges decreased by Php9 million, or 1%, to Php742 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions, customer relationship management and internet and online gaming businesses on account of fully depreciated assets and lower capital expenditures, partially offset by higher depreciation in relation to Data Center expansion and disaster recovery project.

Rent expenses decreased by Php29 million, or 4%, to Php687 million primarily due to the expiration of several leases and closure of several offices of knowledge processing solutions business partly offset by higher office building and site rental charges by the customer relationship management and data center businesses.

Professional and other contracted services decreased by Php92 million, or 16%, to Php500 million primarily due to lower contracted service fees, management fees, legal fees and other professional fees incurred by our knowledge processing solutions business.

Communication, training and travel expenses decreased by Php39 million, or 8%, to Php461 million primarily due to lower local and foreign training and travel expenses, courier charges and communications charges incurred by our customer relationship management and knowledge processing solutions businesses, partially offset by higher trunk line charges by our data center business.

Amortization of intangible assets increased by Php12 million, or 5%, to Php254 million due to intangible assets recognized in relation to the acquisition of Laguna Medical and additional game licenses acquired by our gaming business in late 2009 and 2010.

Taxes and licenses increased by Php4 million, or 4%, to Php108 million primarily due to higher business-related taxes.

Selling and promotion expenses decreased by Php10 million, or 9%, to Php103 million mainly due to our gaming business lower promotional expenses due to the timing of launching of its new major games and decrease in commission expense of our knowledge processing solutions business, partially offset by higher advertisements by our customer relationship management and data center businesses.

Insurance and security services increased by Php11 million, or 16%, to Php79 million primarily due to higher security services and insurance premiums.

Other expenses increased by Php1 million, or 1%, to Php184 million mainly due to higher various business and ICT operational-related costs.

Other Income

The following table summarizes the breakdown of our total ICT-related other income net for the years ended December 31, 2010 and 2009:

	2010	2009	Change	
			Amount	%
		(in millions)		
Other Income (Expenses):				
Equity share in net earnings of associates	Php 186	Php 168	Php 18	11
Interest income	35	28	7	25
Gains on derivative financial instruments net	2	8	(6)	(75)

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Foreign exchange losses net	(66)	(12)	(54)	450
Financing costs net	(176)	(171)	(5)	3
Others	240	195	45	23
Total	Php 221	Php 216	Php 5	2

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Our ICT business other income net amounted to Php221 million in 2010, an increase of Php5 million, or 2%, from Php216 million in 2009 primarily due to the combined effects of the following: (i) an increase in other income by Php45 million mainly due to adjustment in fair value of contingent liability of SPi America Holdings from the acquisition of Laguna Medical and insurance claim received in 2010 partly offset by the de-recognition of liabilities in 2009; (ii) an increase in equity share in net earnings of associates by Php18 million; (iii) an increase in interest income of Php7 million due to increase in short-term placements and bank deposits; (iv) an increase in financing costs net by Php5 million due to higher accretion on contingent liabilities from our knowledge processing solutions business; (v) the lower gain on derivative financial instruments by Php6 million mainly due to the expiration of derivative contracts of Parlance and SPi in December 2009; and (vi) a net increase in foreign exchange losses by Php54 million due to the revaluation of net foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2010.

Benefit from Income Tax

Benefit from income tax of Php38 million in 2010 from Php28 million in 2009 primarily due to the corresponding deferred tax benefit from the amortization of intangible assets related to the acquisition of Laguna Medical in 2009.

Net Income (Loss)

In 2010, our ICT business registered a net loss of Php327 million as compared with a net income of Php504 million in 2009 mainly as a result of an increase in ICT-related expenses by Php655 million due to asset impairment charges and a decrease in ICT revenues by Php191 million, partially offset by a net benefit from income tax by Php10 million and an increase in other income by Php5 million.

Adjusted EBITDA

Our ICT business adjusted EBITDA increased by Php393 million, or 30%, to Php1,723 million in 2010 from Php1,330 million in 2009 primarily due to lower expenses particularly compensation and employee benefits, professional and other contracted services, and cost of sales, partially offset by a decline in revenues from our customer relationship management, and internet and online gaming businesses.

Core Income

Our ICT business core income amounted to Php1,030 million in 2010, an increase of Php417 million, or 68%, as compared with Php613 million in 2009 mainly as a result of a decrease in cash expenses and a net benefit from income tax partially offset by a decrease in ICT revenues.

2009 Compared to 2008**On a Consolidated Basis****Revenues**

Our revenues increased by Php2,156 million, or 1%, to Php147,993 million in 2009 from Php145,837 million in 2008. This increase was primarily due to an increase in our service revenues by Php2,694 million resulting largely from an increase in the service revenues of our wireless and fixed line businesses, which was primarily due to an increase in the number of our cellular and broadband subscribers, which was partially offset by a decrease in our non-service revenues.

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The following table shows the breakdown of our consolidated revenues for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Php	%	(in millions)	%	Amount	%
Wireless	97,524	66	95,852	66	1,672	2
Fixed line	51,373	34	49,686	34	1,687	3
Information and communications technology	11,549	8	10,983	7	566	5
Inter-segment transactions	(12,453)	(8)	(10,684)	(7)	(1,769)	17
Consolidated	Php 147,993	100	Php 145,837	100	Php 2,156	1

Expenses

Our expenses increased by Php4,325 million, or 5%, to Php90,111 million in 2009 from Php85,786 million in 2008 largely resulting from increases in compensation and employee benefits, depreciation and amortization, asset impairment, rent and other operating expenses partly offset by lower provisions, professional and other contracted services, and communication, training and travel expenses. As a percentage of our consolidated revenues, consolidated expenses increased to 61% in 2009 from 59% in 2008.

The following table shows the breakdown of our consolidated expenses for the years ended December 31, 2009 and 2008 by business segment:

	2009		2008		Change	
	Php	%	(in millions)	%	Amount	%
Wireless	52,432	58	47,589	55	4,843	10
Fixed line	39,081	43	35,733	42	3,348	9
Information and communications technology	11,289	13	13,267	16	(1,978)	(15)
Inter-segment transactions	(12,691)	(14)	(10,803)	(13)	(1,888)	17
Consolidated	Php 90,111	100	Php 85,786	100	Php 4,325	5

Other Expenses

Other expenses net decreased by Php2,959 million, or 49%, to Php3,043 million in 2009 as compared with Php6,002 million in 2008. The decrease was primarily due to the combined effects of the following: (i) net foreign exchange gains of Php909 million in 2009 as compared with net foreign exchange losses of Php6,170 million in 2008 due to the appreciation of the Philippine peso to the U.S. dollar to Php46.43 as at December 31, 2009 from Php47.65 as at December 31, 2008; (ii) an increase in other income of Php404 million primarily due to a gain on fair value adjustment of investment properties and a gain on the dissolution of Mabuhay Space Holdings Limited, a joint venture between Mabuhay Satellite and Space Systems/Loral, Inc.; (iii) an increase in equity share in net earnings of associates and joint ventures by Php178 million due to the share in net earnings of Meralco from July 15, 2009 (PCEV acquired a 20% equity interest of Meralco on July 14, 2009) to December 31, 2009; (iv) lower interest income by Php129 million due to lower average interest rate on money market placements and special deposits; (v) an increase in net financing costs by Php452 million mainly due to higher interest on loans and other related items net, on account of PLDT's and Smart's higher average loan balances, depreciation of foreign exchange rate and lower capitalized interest; and (vi) net losses on derivative financial instruments of Php1,006 million on account of loss on mark-to-market valuation on foreign currency swaps in 2009 as against net gains on derivative financial instruments

of Php3,115 million in 2008 due to the effect of the de-designation of foreign currency swaps and option contracts.

The following table shows the breakdown of our consolidated other expenses net for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change	
			(in millions)		Amount	%
Wireless	Php 1,149	(38)	Php (2,640)	44	Php 3,789	144
Fixed line	(4,170)	137	(3,173)	53	(997)	31
Information and communications technology	216	(7)	(1)		217	21,700
Inter-segment transactions	(238)	8	(188)	3	(50)	27
Consolidated	Php (3,043)	100	Php (6,002)	100	Php 2,959	(49)

Provision for Income Tax

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Provision for income tax decreased by Php4,329 million, or 23%, to Php14,744 million in 2009, as compared with Php19,073 million in 2008 mainly due to a reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and the availment of the optional standard deduction, or OSD, method in the computation of income tax by Smart and certain of our wireless and fixed line subsidiaries.

Net Income

As a result, our consolidated net income was Php40,095 million in 2009, an increase of Php5,119 million, or 15%, as compared with Php34,976 million in 2008 primarily due to lower consolidated other expenses net, lower consolidated provision for income tax and higher consolidated revenues partially offset by a slight increase in consolidated expenses.

The following table shows the breakdown of our consolidated net income for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008 (in millions)	%	Change	
					Amount	%
Wireless	Php 33,727	84	Php 29,499	84	Php 4,228	14
Fixed line	5,864	15	7,732	22	(1,868)	(24)
Information and communications technology	504	1	(2,186)	(6)	2,690	123
Inter-segment transactions			(69)		69	100
Consolidated	Php 40,095	100	Php 34,976	100	Php 5,119	15

Adjusted EBITDA

Our consolidated adjusted EBITDA was Php86,194 million in 2009, a decrease of Php1,802 million, or 2%, as compared with Php87,996 million in 2008 primarily due to higher expenses particularly compensation and employee benefits, provision for uncollectible receivables, rent expenses, and various operational and business-related expenses, partially offset by an increase in service revenues across our businesses.

The following table shows the breakdown of our consolidated adjusted EBITDA for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008 (in millions)	%	Change	
					Amount	%
Wireless	Php 59,411	69	Php 60,967	69	Php (1,556)	(3)
Fixed line	25,215	29	25,854	30	(639)	(2)
Information and communications technology	1,330	2	1,056	1	274	26
Inter-segment transactions	238		119		119	100
Consolidated	Php 86,194	100	Php 87,996	100	Php (1,802)	(2)

Core Income

Our consolidated core income was Php41,138 million in 2009, an increase of Php2,924 million, or 8%, as compared with Php38,214 million in 2008 primarily due to lower provision for income tax and higher revenues, partially offset by higher expenses.

The following table shows the breakdown of our consolidated core income for the years ended December 31, 2009 and 2008 by business segment:

	2009	%	2008	%	Change	
			(in millions)		Amount	%
Wireless	Php 33,026	80	Php 30,250	79	Php 2,776	9
Fixed line	7,502	18	7,890	21	(388)	(5)
Information and communications technology	613	2	138		475	344
Inter-segment transactions	(3)		(64)		61	95
Consolidated	Php 41,138	100	Php 38,214	100	Php 2,924	8

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Revenues generated from our wireless business amounted to Php97,524 million in 2009, an increase of Php1,672 million, or 2%, from Php95,852 million in 2008. The following table summarizes our total revenues from our wireless business for the years ended December 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease)	
			(in millions)		Amount	%
Wireless Services:						
Service Revenues:						
Cellular	Php 88,410	91	Php 87,518	92	Php 892	1
Wireless broadband, satellite and others						
Wireless broadband	5,383	5	4,327	4	1,056	24
Satellite and others	2,036	2	1,748	2	288	16
	95,829	98	93,593	98	2,236	2
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	1,695	2	2,259	2	(564)	(25)
Total Wireless Revenues	Php 97,524	100	Php 95,852	100	Php 1,672	2

Service Revenues

Our wireless service revenues increased by Php2,236 million, or 2%, to Php95,829 million in 2009 as compared with Php93,593 million in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from voice services increased due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008, as well as the growth in international inbound call volumes in 2009 as compared with 2008. Revenues from SMS, on the other hand, decreased due to the increase in the number of multiple SIM card ownership, intense competition and the continued decline in SMS yield as a result of aggressive SMS offers. Since the growth in our cellular subscriber base was mainly due to the increase in multiple SIM card ownership especially in the lower income segment of the Philippine wireless market and the increase in our call volumes was primarily due to the introduction of new unlimited voice offers, average monthly cellular ARPUs for 2009 were lower as compared with 2008. Due to the popularity of unlimited voice offers and competitive pressures, we expect this trend to continue. As a percentage of our total wireless revenues, service revenues contributed 98% in both 2009 and 2008.

Cellular Service

Our cellular service revenues amounted to Php88,410 million in 2009, an increase of Php892 million, or 1%, from Php87,518 million in 2008. Cellular service revenues accounted for 92% of our wireless service revenues in 2009 as compared with 94% in 2008.

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The following table shows the breakdown of our cellular service revenues and other key measures of our cellular business as at and for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
			Amount	%
Cellular service revenues	Php88,410	Php87,518	Php 892	1
		(in millions)		
<i>By service type</i>	85,922	85,079	843	1
Prepaid	79,284	78,743	541	1
Postpaid	6,638	6,336	302	5
<i>By component</i>	85,922	85,079	843	1
Voice	38,850	37,275	1,575	4
Data	47,072	47,804	(732)	(2)
<i>Others⁽¹⁾</i>	2,488	2,439	49	2

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

	2009	2008	Increase (Decrease)	
			Amount	%
Cellular subscriber base	41,328,641	35,224,604	6,104,037	17
Prepaid	40,893,098	34,826,468	6,066,630	17
<i>Smart Buddy</i>	23,762,814	20,501,617	3,261,197	16
<i>Talk N Text⁽¹⁾</i>	17,050,713	14,308,493	2,742,220	19
<i>Red Mobile⁽²⁾</i>	79,571	16,358	63,213	386
Postpaid	435,543	398,136	37,407	9
Systemwide traffic volumes (in millions)				
Calls (in minutes)	16,305	9,192	7,113	77
Domestic	13,371	6,287	7,084	113
<i>Inbound</i>	1,495	1,654	(159)	(10)
<i>Outbound</i>	11,876	4,633	7,243	156
International	2,934	2,905	29	1
<i>Inbound</i>	2,738	2,684	54	2
<i>Outbound</i>	196	221	(25)	(11)
SMS/Data count (in hits)	287,921	258,246	29,675	11
Text messages	286,294	256,606	29,688	12
Domestic	285,847	256,181	29,666	12
<i>Inbound</i>	8,289	8,430	(141)	(2)
<i>Outbound</i>	277,558	247,751	29,807	12
Bucket-Priced	258,190	226,937	31,253	14
Standard	19,368	20,814	(1,446)	(7)
International	447	425	22	5
<i>Inbound</i>	136	125	11	9

<i>Outbound</i>	311	300	11	4
Value-Added Services	1,608	1,614	(6)	
Financial Services	19	26	(7)	(27)

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

(2) *The Red Mobile brand was launched in November 2008 by CURE*

Revenues attributable to our cellular prepaid service amounted to Php79,284 million in 2009, an increase of Php541 million, or 1%, over the Php78,743 million earned in 2008. Prepaid cellular service revenues accounted for 92% and 93% of cellular voice and data revenues in 2009 and 2008, respectively. Revenues attributable to Smart's postpaid cellular service amounted to Php6,638 million in 2009, an increase of Php302 million, or 5%, over the Php6,336 million earned in 2008, and accounted for 8% and 7% of cellular voice and data revenues in 2009 and 2008, respectively.

Table of Contents*Voice Services*

Cellular revenues from our voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php1,575 million, or 4%, to Php38,850 million in 2009 from Php37,275 million in 2008 primarily due to the introduction of new unlimited voice offers, the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues to Php47.64 in 2009 from Php44.47 in 2008 and the growth in inbound international call volumes. Cellular voice services accounted for 44% of our cellular service revenues in 2009 as compared with 43% in 2008.

The following table shows the breakdown of our cellular voice revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase (Decrease)	
		(in millions)	Amount	%
Voice services:				
<i>Domestic</i>				
Inbound	Php 5,095	Php 5,405	(Php 310)	(6)
Outbound	16,534	15,959	575	4
	21,629	21,364	265	1
<i>International</i>				
Inbound	15,287	13,732	1,555	11
Outbound	1,934	2,179	(245)	(11)
	17,221	15,911	1,310	8
			 	