

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.

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

** 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	Investment company		100.0
Telecoms Solutions, Inc., or TSI	Islands	Mobile commerce solutions marketing		100.0
Far East Capital Limited and Subsidiary	Mauritius	Mobile commerce platforms		100.0
PH Communications Holdings Corporation, or PHC	Cayman Islands	Cost effective offshore financing and risk management activities for Smart		100.0
Francom Holdings, Inc., or FHI:	Islands	Investment company		100.0
Connectivity Unlimited	Philippines	Investment company		100.0
Resource Enterprise, Inc., or CURE	Philippines	Investment company		100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	Philippines	Cellular mobile services		100.0
PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Subsidiaries, or PCEV Group	British Virgin Islands	Mobile applications development and services; Content provider		100.0
SmartConnect Holdings Pte. Ltd., or SCH:	Philippines	Investment company		99.5
SmartConnect Global Pte. Ltd., or SGP	Singapore	Investment company		100.0
	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
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.

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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:

	2010	2009	Increase (Decrease)	
			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, <i>PLP</i> 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)	
			(in millions)		Amount	%
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	
			(in millions)		Amount	%
Wireless	Php 97,524	66	Php 95,852	66	Php 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	
			(in millions)		Amount	%
Wireless	Php 52,432	58	Php 47,589	55	Php 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	%	Change	
					Amount	%
			(in millions)			
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	%	Change	
					Amount	%
			(in millions)			
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) Amount	%
	(in millions)			
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
Total	Php 38,850	Php 37,275	Php 1,575	4

Domestic voice service revenues increased by Php265 million, or 1%, to Php21,629 million in 2009 from Php21,364 million in 2008 primarily due to an increase in domestic outbound call revenues by Php575 million, or 4%, to Php16,534 million in 2009 from Php15,959 million in 2008 mainly due to unlimited voice offerings. This was partially offset by the lower revenue contribution of our inbound domestic voice service by Php310 million, or 6%, to Php5,095 million in 2009 from Php5,405 million in 2008 as a result of lower call volumes from PLDT's regular call service due to the introduction of a fixed rate calling package, partly offset by higher traffic from other domestic. Inbound and outbound domestic call volumes were 1,495 million minutes and 11,876 million minutes, respectively, in 2009 from 1,654 million minutes and 4,633 million minutes, respectively, in 2008. The aggregate increase was mainly due to higher call volumes from unlimited voice offerings.

International voice service revenues increased by Php1,310 million, or 8%, to Php17,221 million in 2009 from Php15,911 million in 2008 primarily due to higher inbound international voice service revenues by Php1,555 million, or 11%, to Php15,287 million in 2009 from Php13,732 million in 2008. The increase in international voice service revenues was mainly on account of the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 for the year ended December 31, 2009 from Php44.47 for the year ended December 31, 2008 on our dollar-linked revenues complemented by the increase in international inbound call volumes by 54 million minutes, or 2%, to 2,738 million minutes in 2009 from 2,684 million minutes in 2008. This was partially offset by lower international outbound voice service revenues by Php245 million, or 11%, to Php1,934 million in 2009 from Php2,179 million in 2008 as international outbound call volumes decline by 25 million

minutes, or 11%, to 196 million minutes in 2009 from 221 million minutes in 2008.

Data Services

Cellular revenues from our data services, which include all text messaging-related services, as well as VAS, decreased by Php732 million, or 2%, to Php47,072 million in 2009 from Php47,804 million in 2008. Cellular data services accounted for 53% and 55% of our cellular service revenues in 2009 and 2008, respectively.

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

	2009	2008	Increase (Decrease)	
		(in millions)	Amount	%
Text messaging				
Domestic	Php 42,905	Php 43,477	Php (572)	(1)
<i>Bucket-Priced</i>	<i>26,797</i>	<i>26,461</i>	<i>336</i>	<i>1</i>
<i>Standard</i>	<i>16,108</i>	<i>17,016</i>	<i>(908)</i>	<i>(5)</i>
International	1,668	1,808	(140)	(8)
	44,573	45,285	(712)	(2)
Value-added services				
Standard ⁽¹⁾	1,057	1,325	(268)	(20)
Rich Media ⁽²⁾	998	679	319	47
<i>Pasa Load</i>	<i>413</i>	<i>470</i>	<i>(57)</i>	<i>(12)</i>
	2,468	2,474	(6)	
Financial services				
<i>Smart Money</i>	<i>27</i>	<i>41</i>	<i>(14)</i>	<i>(34)</i>
Mobile Banking	4	4		
	31	45	(14)	(31)
Total	Php 47,072	Php 47,804	Php (732)	(2)

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

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

Text messaging-related services contributed revenues of Php44,573 million in 2009, a decrease of Php712 million, or 2%, as compared with Php45,285 million in 2008, and accounted for 95% of our total cellular data revenues in each of 2009 and 2008. The decrease in revenues from text messaging-related services resulted mainly from the increase 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, intense competition, the continued decline in SMS yield as a result of unlimited SMS offers and alternative means of communication. Text messaging revenues from the various bucket-priced plans totaled Php26,797 million in 2009, an increase of Php336 million, or 1%, as compared with Php26,461 million in 2008. On the other hand, standard text messaging revenues decreased by Php908 million to Php16,108 million in 2009 from Php17,016 million in 2008. The decrease in international text messaging revenues was mainly due to the higher average/effective rate of roaming costs in 2009.

Bucket-priced text messages totaled 258,190 million in 2009, an increase of 31,253 million, or 14%, as compared with 226,937 million in 2008. Standard text messages totaled 19,368 million in 2009, a decrease of 1,446 million, or 7%, as compared with 20,814 million in 2008 mainly due to a shift to bucket-priced text services.

VAS, which contributed revenues of Php2,468 million in 2009, decreased by Php6 million from Php2,474 million in 2008 primarily due to lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of air time credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups partially offset by higher usage of rich media services.

Subscriber Base, ARPU and Churn Rates

Smart (including PCEV's *Talk N Text* subscribers which were transferred to Smart on August 17, 2009) and *Red Mobile* cellular subscribers totaled 41,328,641 at the end of 2009, an increase of 6,104,037, or 17%, over their combined cellular subscriber base of 35,224,604 at the end of 2008. This increase in our cellular subscriber base was primarily attributable to multiple SIM card ownership which, together with unlimited voice offers, resulted in lower average monthly cellular ARPU for 2009 than in 2008. Our cellular prepaid subscriber base grew by 17% to 40,893,098 in 2009 from 34,826,468 in 2008, while our cellular postpaid subscriber base increased by 9% to 435,543 in 2009 from 398,136 in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 6,066,630 and 37,407, respectively, in 2009 and 5,127,318 and 56,256, respectively, in 2008.

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Our net subscriber activations for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008	Increase (Decrease)	
			Amount	%
Prepaid	6,066,630	5,127,318	939,312	18
<i>Smart Buddy</i>	3,261,197	504,293	2,756,904	547
<i>Talk N Text</i>	2,742,220	4,606,667	(1,864,447)	(40)
<i>Red Mobile</i> ⁽²⁾	63,213	16,358	46,855	286
Postpaid	37,407	56,256	(18,849)	(34)
Total	6,104,037	5,183,574	920,463	18

⁽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

Our quarterly net subscriber activations over the eight quarters in 2009 and 2008 were as follows:

	2009				2008			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,692,767	1,575,585	621,154	2,177,124	1,533,812	1,660,040	917,528	1,015,938
<i>Smart Buddy</i>	419,821	523,496	644,932	1,672,948	282,044	130,697	111,487	(19,935)
<i>Talk N Text</i>	1,256,907	1,019,162	(32,419)	498,570	1,251,768	1,529,343	806,041	1,019,515
<i>Red Mobile</i>	16,039	32,927	8,641	5,606				16,358
Postpaid	9,328	17,746	6,806	3,527	1,117	5,027	17,816	32,296
Total	1,702,095	1,593,331	627,960	2,180,651	1,534,929	1,665,067	935,344	1,048,234

For *Smart Buddy*, the average monthly churn rate for 2009 and 2008 was 4.2% and 4.7%, respectively, while the average monthly churn rate for *Talk N Text* subscribers was 5.0% and 4.8% in 2009 and 2008, respectively. The average monthly churn rate for *Red Mobile* subscribers was 12.3% in 2009.

The average monthly churn rate for Smart's postpaid subscribers were 1.9% and 1.2% for 2009 and 2008, 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 are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our cellular average monthly ARPUs for the years ended December 31, 2009 and 2008:

	Gross ⁽¹⁾		Decrease		Net ⁽²⁾		Decrease	
	2009	2008	Amount	%	2009	2008	Amount	%
Prepaid								

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<i>Smart Buddy</i>	Php	261	Php	290	Php	(29)	(10)	Php	207	Php	230	Php	(23)	(10)
<i>Talk N Text</i>		161		194		(33)	(17)		133		158		(25)	(16)
<i>Red Mobile</i>		20		48		(28)	(58)		13		39		(26)	(67)
Prepaid														
Blended ⁽³⁾		218		254		(36)	(14)		175		203		(28)	(14)
Postpaid Smart		1,817		2,065		(248)	(12)		1,313		1,483		(170)	(11)
Prepaid and														
Postpaid														
Blended ⁽⁴⁾		235		274		(39)	(14)		188		217		(29)	(13)

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including 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 subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU was Php218 in 2009, a decrease of 14%, as compared with Php254 in 2008.

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The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in 2009 as compared with 2008 resulting primarily from the fact that the increase in our cellular subscriber base in 2009 was primarily attributable to multiple SIM card ownership and that the increase in our call volumes resulted primarily from unlimited voice offerings. On a net basis, prepaid blended average monthly ARPU was Php175 in 2009, a decrease of 14%, as compared with Php203 in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 12% to Php1,817 as net average monthly ARPU also decreased by 11% to Php1,313 in 2009 as compared with Php2,065 and Php1,483 in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php235 in 2009, a decrease of 14%, as compared with Php274 in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 13% to Php188 in 2009 from Php217 in 2008.

Our average quarterly prepaid and postpaid ARPUs for 2009 and 2008 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⁾
2009								
First Quarter	Php272	Php216	Php176	Php144	Php25	Php14	Php1,863	Php1,364
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
2008								
First Quarter	292	230	207	163			2,013	1,472
Second Quarter	294	232	199	159			2,134	1,510
Third Quarter	285	223	178	148			2,078	1,505
Fourth Quarter	291	234	192	162	48	39	2,037	1,445

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

(2) Net quarterly 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 Php1,056 million, or 24%, to Php5,383 million in 2009 from Php4,327 million in 2008 primarily due to the growth in wireless broadband subscribers.

SBI offers a number of wireless broadband services and had a total of 1,037,720 subscribers as at December 31, 2009, an increase of 490,630 subscribers, or 90%, as compared with 547,090 subscribers as at December 31, 2008. Our postpaid wireless broadband subscriber base increased by 13,094 subscribers to 436,037 subscribers as at December 31, 2009 from 422,943 subscribers as at December 31, 2008. Our prepaid wireless broadband subscriber base also increased by 477,536 subscribers, or 385%, to 601,683 subscribers as at December 31, 2009 from 124,147 subscribers as at December 31, 2008.

Satellite and Other Services

Revenues from our satellite and other services increased by Php288 million, or 16%, to Php2,036 million in 2009 from Php1,748 million in 2008 principally due to the growth in subscribers of our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 for the year ended December 31, 2009 from Php44.47 for the year ended December 31, 2008 on our U.S. dollar and U.S. dollar-linked satellite and other service revenues, partially offset by lower satellite

transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

Table of Contents**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 Php564 million, or 25%, to Php1,695 million in 2009 as compared with Php2,259 million in 2008 primarily due to the lower average retail price of cellular phonekits and SIM-packs, partly offset by increased sales of broadband data modems.

Expenses

Expenses associated with our wireless business amounted to Php52,432 million in 2009, an increase of Php4,843 million, or 10%, from Php47,589 million in 2008. A significant portion of this increase was attributable to rent, depreciation and amortization, asset impairment, compensation and employee benefits, professional and other contracted services, and other expenses, partially offset by lower expenses related to provisions, and communication, training and travel expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 54% and 50% in 2009 and 2008, respectively.

Cellular business expenses accounted for 85% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 15% of our wireless business expenses in 2009 as compared with 90% and 10%, respectively, in 2008.

The following table summarizes the breakdown of our total wireless-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	2009	%	2008	%	Increase (Decrease)	
			(in millions)		Amount	%
Wireless Services:						
Depreciation and amortization	Php 13,237	25	Php 11,975	25	Php 1,262	11
Rent	10,553	20	9,267	20	1,286	14
Compensation and employee benefits ⁽¹⁾	6,059	12	5,433	11	626	12
Cost of sales	4,363	8	4,236	9	127	3
Repairs and maintenance	4,340	8	4,230	9	110	3
Selling and promotions	4,051	8	3,781	8	270	7
Professional and other contracted services	2,904	6	2,529	5	375	15
Asset impairment	2,026	4	1,006	2	1,020	101
Taxes and licenses	2,022	4	1,872	4	150	8
Communication, training and travel	972	2	1,091	2	(119)	(11)
Insurance and security services	781	1	722	2	59	8
Amortization of intangible assets	126		133		(7)	(5)
Provisions			897	2	(897)	(100)
Other expenses	998	2	417	1	581	139
Total	Php 52,432	100	Php 47,589	100	Php 4,843	10

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

Depreciation and amortization charges increased by Php1,262 million, or 11%, to Php13,237 million in 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband

customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network. Going forward, we expect our depreciation and amortization expenses to increase in line with our expected increase in our capital expenditures in 2010.

Rent expenses increased by Php1,286 million, or 14%, to Php10,553 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site rental expenses. In 2009, we had 5,539 cell sites, 9,727 cellular/mobile broadband base stations and 2,007 fixed wireless broadband-enabled base stations, as compared with 5,284 cell sites, 8,477 cellular/mobile broadband base stations and 1,986 fixed wireless broadband-enabled base stations in 2008.

Compensation and employee benefits expenses increased by Php626 million, or 12%, to Php6,059 million primarily due to increased provision for LTIP, MRP cost, merit-based increases, and employee upgrades and promotions. The increase was partly offset by a decrease in employee headcount of Smart and subsidiaries by 94 to 5,454 in 2009 as compared with 5,548 in 2008. For further discussion of our LTIP, please see Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

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Cost of sales increased by Php127 million, or 3%, to Php4,363 million primarily due to higher sales volume of broadband data modems in 2009 and an increase in retention transactions, partly offset by the lower combined average cost of cellular phonekits and SIM-packs.

Repairs and maintenance expenses increased by Php110 million, or 3%, to Php4,340 million mainly due to an increase in network maintenance costs and electricity consumption, partly offset by lower fuel costs for power generation and lower software maintenance expenses.

Selling and promotion expenses increased by Php270 million, or 7%, to Php4,051 million primarily due to higher advertising, promotional campaigns and public relations expenses.

Professional and other contracted services increased by Php375 million, or 15%, to Php2,904 million primarily due to the increase in call center service fees, partly offset by lower contracted service fees, payment facility fees, consultancy and technical service fees.

Asset impairment increased by Php1,020 million, or 101%, to Php2,026 million mainly due to higher impairment on fixed assets and intangibles, higher provision for uncollectible receivables and higher provision for obsolescence of slow-moving handsets and broadband routers and modems.

Taxes and licenses increased by Php150 million, or 8%, to Php2,022 million primarily due to higher business-related taxes and license fees.

Communication, training and travel expenses decreased by Php119 million, or 11%, to Php972 million primarily due to lower travel, training, fuel, communication and hauling expenses incurred in 2009.

Insurance and security services increased by Php59 million, or 8%, to Php781 million primarily due to the increase in the number of sites and higher salary rate of security guards.

Amortization of intangibles decreased by Php7 million, or 5%, to Php126 million primarily due to the full amortization of technical application relating to SBI, partly offset by the amortization of licenses relating to BOW.

Provisions of Php897 million in 2008 pertained to provisions for assessments. Please see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18 for further discussion.

Other expenses increased by Php581 million, or 139%, to Php998 million primarily due to higher various business and wireless operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our total wireless-related other income (expenses) net for the years ended December 31, 2009 and 2008:

	2009	2008	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Gains (losses) on derivative financial instruments net	Php 1,166	Php (241)	Php 1,407	584
Interest income	1,139	1,197	(58)	(5)
Foreign exchange gains (losses) net	387	(1,771)	2,158	122
Equity share in net losses of associates	(68)	(119)	51	(43)
Financing costs net	(2,619)	(2,029)	(590)	29
Others	1,144	323	821	254
Total	Php 1,149	Php (2,640)	Php 3,789	144

Our wireless business generated other income net of Php1,149 million in 2009, an increase of Php3,789 million, or 144%, as against other expenses net of Php2,640 million in 2008 primarily due to the combined effects of the following: (1) net foreign exchange gains of Php387 million in 2009 as against net losses on foreign exchange revaluation of Php1,771 million in 2008 mainly due to the appreciation of the Philippine peso to the U.S. dollar in 2009; (2) net gains on derivative financial instruments of Php1,166 million in 2009 as against net losses on derivative transactions of Php241 million in 2008 mainly due to a gain in the mark-to-market valuation of Php1,170 million

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relating to the derivative option of the exchangeable note purchased as part of the Meralco share acquisition by PCEV in 2009; (3) increase in other income by Php821 million mainly due to Smart's equipment rental and gain on dissolution of Mabuhay Space Holdings Limited (please see to Note 10 Investments in Associates and Joint Ventures to the accompanying consolidated financial statements in Item 18 for further discussion); (4) decrease in equity share in net losses of associates by Php51 million, mainly from the decline in equity share in net losses in BOW complemented by the share in net earnings of Meralco of Php398 million from July 15, 2009 (PCEV acquired 20% equity interest of Meralco) to December 31, 2009, net of amortization of share in Meralco intangibles of Php41 million and depreciation of fair value adjustment of certain Meralco's utility, plant and others of Php59 million, partly offset by a Php381 million loss on the re-measurement of Smart's investment in BOW; and (5) higher net financing costs by Php590 million primarily due to higher interest on loans and other related items net on account of Smart's higher average loan balances, foreign exchange rate, interest rate, and lower capitalized interest.

Provision for Income Tax

Provision for income tax decreased by Php3,610 million, or 22%, to Php12,514 million in 2009 from Php16,124 million in 2008. The effective tax rate for our wireless business was 27% in 2009 as compared with 35% in 2008 mainly due to the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009 and availment of OSD in the computation of regular corporate income tax.

Net Income

Our wireless business recorded a net income of Php33,727 million in 2009, an increase of Php4,228 million, or 14%, from Php29,499 million recorded in 2008 primarily due to an increase of Php3,789 million in other income net, a decrease of Php3,610 million in provision for income tax and a Php2,236 million increase in wireless service revenues, partially offset by an increase in wireless-related expenses of Php4,843 million and a Php564 million decrease in non-service revenues.

Adjusted EBITDA

Our wireless business adjusted EBITDA was Php59,411 million in 2009, a decrease of Php1,556 million, or 3%, as compared with Php60,967 million in 2008 primarily due to higher cash operating expenses particularly rent, compensation and employee benefits, professional and other contracted services, selling and promotions, and other operating expenses, partially offset by higher service revenues.

Core Income

Our wireless business core income in 2009 was Php33,026 million, an increase of Php2,776 million, or 9%, as compared with Php30,250 million in 2008 primarily due to lower provision for income tax and higher revenues, partially offset by higher expenses.

Fixed Line**Revenues**

Revenues generated from our fixed line business amounted to Php51,373 million in 2009, an increase of Php1,687 million, or 3%, from Php49,686 million in 2008.

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The following table summarizes our total revenues from our fixed line business for the years ended December 31, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease) Amount	%
	(in millions)					
Fixed Line Services:						
Service Revenues:						
Local exchange	Php 15,681	31	Php 15,923	32	Php (242)	(2)
International long distance	6,255	12	7,063	14	(808)	(11)
National long distance	5,969	12	6,207	13	(238)	(4)
Data and other network	21,567	42	18,607	37	2,960	16
Miscellaneous	1,668	3	1,466	3	202	14
	51,140	100	49,266	99	1,874	4
Non-Service Revenues:						
Sale of computers	233		420	1	(187)	(45)
Total Fixed Line Revenues	Php 51,373	100	Php 49,686	100	Php 1,687	3

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php1,874 million, or 4%, to Php51,140 million in 2009 from Php49,266 million in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and diginet services, and miscellaneous services, partially offset by a decrease in revenues from our international long distance, local exchange and national long distance services.

For a description of our service offerings, see Item 4. Information on the Company Business Fixed Line.

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, 2009 and 2008:

	2009	2008	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php 15,681	Php 15,923	Php (242)	(2)
Number of fixed line subscribers	1,816,541	1,782,356	34,185	2
Postpaid	1,637,981	1,533,687	104,294	7
Prepaid	178,560	248,669	(70,109)	(28)
Number of fixed line employees ⁽¹⁾	7,947	7,813	134	2
Number of fixed line subscribers per employee	229	228	1	

⁽¹⁾ Increase in headcount was primarily due to the acquisition of Philcom.

Revenues from our local exchange service decreased by Php242 million, or 2%, to Php15,681 million in 2009 from Php15,923 million in 2008 primarily owing to a decrease in ARPU on account of lower fixed charges due to the increase in demand for bundled voice and data services and higher service connection charges, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLP*. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 31% in 2009 as compared

with 32% in 2008.

See Item 4. Information on the Company Business Fixed Line Local Exchange Service for further information on our local exchange service.

Table of Contents*International Long Distance Service*

The following table shows our international long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	2009	2008	Decrease Amount	%
Total international long distance service revenues (in millions)	Php6,255	Php7,063	Php(808)	(11)
Inbound	5,198	5,667	(469)	(8)
Outbound	1,057	1,396	(339)	(24)
International call volumes (in million minutes, except call ratio)	1,863	2,024	(161)	(8)
Inbound	1,653	1,786	(133)	(7)
Outbound	210	238	(28)	(12)
Inbound-outbound call ratio	7.9:1	7.5:1		

Our total international long distance service revenues decreased by Php808 million, or 11%, to Php6,255 million in 2009 from Php7,063 million in 2008 primarily due to a decrease in inbound and outbound call volumes on account of cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 12% in 2009 from 14% in 2008.

Our revenues from inbound international long distance service decreased by Php469 million, or 8%, to Php5,198 million in 2009 from Php5,667 million in 2008 due to a decline in inbound traffic volume by 133 million minutes to 1,653 million minutes in 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by a favorable effect from the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php339 million, or 24%, to Php1,057 million in 2009 from Php1,396 million in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar to Php47.64 in 2009 from Php44.47 in 2008, resulting in an increase in the average billing rates to Php47.78 in 2009 from Php43.95 in 2008.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2009 and 2008:

	2009	2008	Decrease Amount	%
Total national long distance service revenues (in millions)	Php5,969	Php6,207	Php(238)	(4)
National long distance call volumes (in million minutes)	1,822	1,944	(122)	(6)

Our national long distance service revenues decreased by Php238 million, or 4%, to Php5,969 million in 2009 from Php6,207 million in 2008 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 decreased to 12% in 2009 from 13% in 2008.

Table of Contents*Data and Other Network Services*

The following table shows information of our data and other network service revenues for the years ended December 31, 2009 and 2008:

	2009	2008	Increase Amount	%
Data and other network service revenues (in millions)	Php 21,567	Php 18,607	Php 2,960	16
Domestic	16,391	14,155	2,236	16
<i>Broadband</i>	7,232	5,563	1,669	30
DSL	7,024	5,360	1,664	31
WeRoam	208	203	5	2
<i>Leased Lines and Others</i>	9,159	8,592	567	7
International				
<i>Leased Lines and Others</i>	5,176	4,452	724	16
Subscriber base:				
<i>Broadband</i>	576,687	448,826	127,861	28
DSL	559,664	432,583	127,081	29
WeRoam	17,023	16,243	780	5
SWUP	12,383	6,516	5,867	90

Our data and other network services posted revenues of Php21,567 million in 2009, an increase of Php2,960 million, or 16%, from Php18,607 million in 2008 primarily due to increases in domestic data revenues, owing to higher revenues from *PLDT DSL*, Diginet, Metro Ethernet and *SWUP*, as well as higher international data revenues, particularly from i-Gate. The percentage contribution of this service segment to our fixed line service revenues increased to 42% in 2009 from 38% in 2008.

Domestic

Domestic data services contributed Php16,391 million in 2009, an increase of Php2,236 million, or 16%, as compared with Php14,155 million in 2008 mainly due to the continued growth in DSL, SWUP, IP-VPN and Metro Ethernet subscribers as demand for offshoring and outsourcing services increased. The percentage contribution of domestic data service revenues to total data and other network services accounted for 76% in each of 2009 and 2008.

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 Php7,232 million in 2009, an increase of Php1,669 million, or 30%, from Php5,563 million in 2008 primarily due to the higher revenue contribution of DSL which contributed revenues of Php7,024 million in 2009 from Php5,360 million in 2008 owing to the increase in the number of subscribers. DSL revenues accounted for 33% and 29% of total data and other network service revenues in 2009 and 2008, respectively. DSL subscribers increased by 29% to 559,664 subscribers as at December 31, 2009 from 432,583 subscribers as at December 31, 2008. *WeRoam* revenues amounted to Php208 million in 2009 from Php203 million in 2008 as subscribers increased by 5%, to 17,023 subscribers as at December 31, 2009 from 16,243 subscribers as at December 31, 2008.

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, 2009, *SWUP* has a total subscriber base of 12,383 from 6,516 subscribers as at December 31, 2008. Leased lines and other data revenues amounted to Php9,159 million in 2009, an increase of Php567 million, or 7%, from Php8,592 million in 2008 primarily due to an increase in Diginet and Metro Ethernet revenues. The percentage

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contribution of leased lines and other data service revenues to total data and other network services accounted for 42% and 46% in 2009 and 2008, 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 Php724 million, or 16%, to Php5,176 million in 2009 from Php4,452 million in 2008 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 24% in each of 2009 and 2008.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. These service revenues increased by Php202 million in 2009, or 14%, to Php1,668 million from Php1,466 million in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of 2009 and 2008.

Non-service Revenues

Non-service revenues decreased by Php187 million, or 45%, to Php233 million in 2009 from Php420 million in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Expenses

Expenses related to our fixed line business totaled Php39,081 million in 2009, an increase of Php3,348 million, or 9%, as compared with Php35,733 million in 2008. The increase was primarily due to higher asset impairment, compensation and employee benefits, professional and other contracted services, and rent, which were partly offset by decreases in repairs and maintenance, depreciation and amortization, selling and promotions expenses, cost of sales, and other business-related expenses. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 76% and 72% in 2009 and 2008, respectively.

The following table shows the breakdown of our total fixed line-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	2009	%	2008	%	Increase (Decrease) Amount	%
	(in millions)					
Fixed Line Services:						
Depreciation and amortization	Php 11,619	30	Php 11,901	33	Php (282)	(2)
Compensation and employee benefits ⁽¹⁾	10,637	27	9,093	25	1,544	17
Repairs and maintenance	4,345	11	4,634	13	(289)	(6)
Asset impairment	2,901	8	888	3	2,013	227
Rent	2,749	7	2,492	7	257	10
Professional and other contracted services	2,485	6	2,143	6	342	16
Selling and promotions	1,590	4	1,715	5	(125)	(7)
Taxes and licenses	755	2	769	2	(14)	(2)
	658	2	608	2	50	8

Communication, training and travel						
Insurance and security services	488	1	487	1	1	
Cost of sales	310	1	356	1	(46)	(13)
Provisions			1		(1)	(100)
Other expenses	544	1	646	2	(102)	(16)
Total	Php 39,081	100	Php 35,733	100	Php 3,348	9

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

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Depreciation and amortization charges decreased by Php282 million, or 2%, to Php11,619 million due to a lower depreciable asset base in 2009 as compared with 2008.

Compensation and employee benefits expenses increased by Php1,544 million, or 17%, to Php10,637 million primarily due to increased salaries and employee benefits due to an increase in headcount resulting from the acquisition of Philcom and the transfer of Smart's corporate business group to PLDT, and higher provisions for pension costs and LTIP. For further discussion on our LTIP and pension benefits, please see Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

Repairs and maintenance expenses decreased by Php289 million, or 6%, to Php4,345 million primarily due to lower maintenance costs of IT software and domestic cable and wire facilities as less operating and maintenance-related restorations were incurred in 2009 as compared with 2008.

Asset impairment increased by Php2,013 million, or 227%, to Php2,901 million mainly due to impairment loss on the prepaid transponder lease payment to ProtoStar and provision for uncollectible customer receivables. Please see Note 18 Prepayments and Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18 for the discussion of the prepaid transponder lease to ProtoStar.

Rent expenses increased by Php257 million, or 10%, to Php2,749 million due to an increase in international leased circuit charges and satellite link rental charges, partially offset by a decrease in site rental charges.

Professional and other contracted services increased by Php342 million, or 16%, to Php2,485 million primarily due to higher technical and contracted service fees for customer relationship management outsourcing project services.

Selling and promotion expenses decreased by Php125 million, or 7%, to Php1,590 million primarily due to lower spending on marketing and promotion expenses as a result of curtailment on major advertising campaigns in 2009.

Taxes and licenses decreased by Php14 million, or 2%, to Php755 million as a result of lower business-related taxes.

Communication, training and travel expenses increased by Php50 million, or 8%, to Php658 million due to increases in foreign travel and local training expenses, higher mailing and courier and communication charges.

Insurance and security services increased by Php1 million to Php488 million primarily due to higher security services.

Cost of sales decreased by Php46 million, or 13%, to Php310 million due to lower computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php102 million, or 16%, to Php544 million due to decreases 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, 2009 and 2008:

	2009	2008	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Foreign exchange gains (losses) net	Php 532	Php (4,513)	Php 5,045	112
Interest income	402	448	(46)	(10)
Equity share in net losses of joint ventures	(98)	(74)	(24)	32
Gains (losses) on derivative financial instruments net	(2,180)	3,444	(5,624)	(163)
Financing costs net	(3,796)	(3,903)	107	(3)
Others	970	1,425	(455)	(32)
Total	Php (4,170)	Php (3,173)	Php (997)	31

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Our fixed line business other expenses net amounted to Php4,170 million in 2009, an increase of Php997 million, or 31%, as compared with Php3,173 million in 2008. The change was due to the combined effects of the following: (i) net losses on derivative financial instruments of Php2,180 million in 2009 as against net gains on derivative financial instruments of Php3,444 million in 2008 due to the loss on mark-to-market valuation of foreign currency swaps contracts; (ii) decrease in other income by Php455 million primarily due to lower gain on sale of fixed assets partially offset by the gain on fair value adjustment of investment properties; (iii) net foreign exchange gains of Php532 million on account of gain on foreign exchange revaluation of net foreign currency-denominated liabilities owing 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 as against net foreign exchange losses of Php4,513 million due to the revaluation of net foreign currency-denominated liabilities on account of the depreciation of the Philippine peso to the U.S. dollar to Php47.65 as at December 31, 2008 from Php41.41 as at December 31, 2007; and (iv) a decrease in net financing costs by Php107 million due to lower premium payment in relation with the buyback of bonds in 2009 as compared with 2008 and higher capitalized interest partly offset by higher financing charges.

Provision for Income Tax

Provision for income tax amounted to Php2,258 million, a decrease of Php790 million, or 26%, in 2009 as compared with Php3,048 million in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning January 2009.

Net Income

Our fixed line business contributed a net income of Php5,864 million in 2009, a decrease of Php1,868 million, or 24%, as compared with Php7,732 million in 2008 primarily as a result of increases in fixed line-related expenses by Php3,348 million mainly due to the impairment loss on the prepaid transponder lease to ProtoStar, increases in compensation and employee benefits, increases in other expenses net by Php997 million, and a decrease in non-service revenues of Php187 million. The increase in fixed line-related expenses was partially offset by an increase in fixed line service revenues by Php1,874 million and a lower provision for income tax by Php790 million.

Adjusted EBITDA

Our fixed line business adjusted EBITDA was Php25,215 million in 2009, a decrease of Php639 million, or 2%, as compared with Php25,854 million in 2008 primarily due to higher expenses particularly compensation and employee benefits, provision for uncollectible receivables, professional and other contracted services, and rent expenses, partially offset by higher service revenues.

Core Income

Our fixed line business core income in 2009 was Php7,502 million, a decrease of Php388 million, or 5%, as compared with Php7,890 million in 2008 primarily due to higher expenses, partially offset by higher revenues and 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.

Our ICT business generated revenues of Php11,549 million in 2009, an increase of Php566 million, or 5%, as compared with Php10,983 million in 2008. This increase was primarily due to the continued growth of our data center service revenues and our internet and online gaming businesses, partially offset by decreases in the revenue contribution of our customer relationship management and knowledge processing solutions businesses.

The following table summarizes our total revenues from our ICT business for the years ended December 31, 2009 and 2008 by service segment:

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	2009	%	2008	%	Increase (Decrease)	Amount	%
			(in millions)				
Service Revenues:							
Knowledge processing solutions	Php 5,215	45	Php 5,272	48	Php (57)		(1)
Customer relationship management	3,319	29	3,402	31	(83)		(2)
Internet and online gaming	1,113	10	976	9	137		14
Data center and others	1,284	11	767	7	517		67
	10,931	95	10,417	95	514		5
Non-Service Revenues:							
Point-product sales	618	5	566	5	52		9
Total ICT Revenues	Php 11,549	100	Php 10,983	100	Php 566		5

Service Revenues

Service revenues generated by our ICT business amounted to Php10,931 million in 2009, an increase of Php514 million, or 5%, as compared with Php10,417 million in 2008 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business complemented by the growth in our internet and online gaming business. Furthermore, the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar in 2009 complemented the increase in ICT business revenues. This was partially offset by the decline in revenues from our knowledge processing solutions and customer relationship management businesses. As a percentage of our total ICT business revenues, service revenues remained stable at 95% in 2009 and 2008.

Knowledge Processing Solutions

We provide our knowledge processing solutions business primarily through the SPi Group. Knowledge processing solutions business contributed revenues of Php5,215 million in 2009, a decrease of Php57 million, or 1%, as compared with Php5,272 million in 2008 primarily due to lower revenues contributed by SPi's healthcare and litigation services. Knowledge processing solutions accounted for 48% and 51% of total service revenues of our ICT business in 2009 and 2008, respectively.

Customer Relationship Management

We provide our customer relationship management primarily through SPi CRM. Revenues relating to our customer relationship management business decreased by Php83 million, or 2%, to Php3,319 million in 2009 from Php3,402 million in 2008 primarily due to the decrease in international dollar-denominated revenues as a result of termination of contracts with certain international clients and shrinkage from existing programs, partially offset by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar and an increase in domestic revenues. In total, we own and operate approximately 7,140 seats with an average of 5,190 CSRs in 2009 as compared with approximately 6,580 seats with 5,800 CSRs in 2008. SPi CRM had seven customer relationship management sites as at December 31, 2009 and 2008. Customer relationship management revenues accounted for 30% and 33% of total service revenues of our ICT business in 2009 and 2008, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming businesses increased by Php137 million, or 14%, to Php1,113 million in 2009 from Php976 million in 2008 primarily due to an increase in the revenue contribution of Level Up! resulting from its new online games and Infocom's revenues from handling PLDT's DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 10% and 9% of total service revenues of our ICT business in 2009 and 2008, respectively.

Table of Contents*Data Center and Others*

ePLDT operates an internet data center under the brand name *Vitroä*, which provides co-location or rental services, server hosting, data disaster recovery and business continuity services, intrusion detection, security services such as firewalls and managed firewalls and other data services. In 2009, our data center contributed revenues of Php1,284 million, an increase of Php517 million, or 67%, from Php767 million in 2008 primarily due to an increase in demand for our co-location or rental services and server hosting services. Our data center revenues accounted for 12% and 7% of total service revenues of our ICT business in 2009 and 2008, 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 increased by Php52 million in 2009, or 9%, to Php618 million from Php566 million in 2008 primarily due to higher revenues from sales of software licenses.

In 2009, ePLDT acquired majority equity interest in BayanTrade, Inc., a leading licensed software reseller in the Philippines.

Expenses

Expenses associated with our ICT business totaled Php11,289 million in 2009, a decrease of Php1,978 million, or 15%, as compared with Php13,267 million in 2008 primarily due to lower asset impairment, professional and other contracted services, selling and promotions expenses, depreciation and amortization, and communication, training and travel expenses, partially offset by increases in compensation and employee benefits, cost of sales, and repairs and maintenance. As a percentage of our total ICT revenues, expenses related to our ICT business accounted for 98% and 121% in 2009 and 2008, respectively.

The following table shows the breakdown of our total ICT-related expenses and the percentage of each expense item to the total for the years ended December 31, 2009 and 2008:

	2009	%	2008	%	Increase (Decrease) Amount	%
	(in millions)					
ICT Services:						
Compensation and employee benefits ⁽¹⁾	Php 6,418	57	Php 6,131	46	Php 287	5
Cost of sales	799	7	660	5	139	21
Depreciation and amortization	751	7	833	6	(82)	(10)
Rent	716	6	665	5	51	8
Repairs and maintenance	669	6	573	4	96	17
Professional and other contracted services	592	5	747	6	(155)	(21)
Communication, training and travel	500	4	573	4	(73)	(13)
Amortization of intangible assets	242	2	244	2	(2)	(1)
Asset impairment	134	1	2,286	17	(2,152)	(94)
Selling and promotions	113	1	203	2	(90)	(44)
Taxes and licenses	104	1	98	1	6	6
Insurance and security services	68	1	61		7	11
Other expenses	183	2	193	2	(10)	(5)
Total	Php 11,289	100	Php 13,267	100	Php (1,978)	(15)

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

Compensation and employee benefits increased by Php287 million, or 5%, to Php6,418 million mainly due to basic pay increases as a result of salary rate adjustments, as well as an increase in MRP costs and provisions for LTIP partially offset by the decrease in ePLDT and subsidiaries employee headcount by 908, or 6%, to 15,581 in 2009 as compared with 16,489 in 2008.

Cost of sales increased by Php139 million, or 21%, to Php799 million primarily due to higher volume of sales of software licenses and hardware products.

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Depreciation and amortization charges decreased by Php82 million, or 10%, to Php751 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business on account of lower capital expenditures in 2009 as compared with 2008.

Rent expenses increased by Php51 million, or 8%, to Php716 million primarily due to higher office building and site rental charges.

Repairs and maintenance expenses increased by Php96 million, or 17%, to Php669 million primarily due to higher building, site, IT software and hardware repairs and maintenance costs as a result of data center expansion, and higher electricity charges.

Professional and other contracted services decreased by Php155 million, or 21%, to Php592 million primarily due to lower technical service and subcontracted service fees incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php73 million, or 13%, to Php500 million primarily due to lower local and foreign training and travel expenses incurred by our customer relationship management and knowledge processing solutions businesses.

Amortization of intangible assets decreased by Php2 million, or 1%, to Php242 million due to lower foreign exchange rate in 2009. Please see Note 14 Goodwill and Intangible Assets to the accompanying consolidated financial statements in Item 18 for further discussion.

Asset impairment decreased by Php2,152 million, or 94%, to Php134 million primarily due to lower impairment on goodwill and other intangibles from the investment in SPi and Level Up! in 2009 as compared with 2008.

Selling and promotion expenses decreased by Php90 million, or 44%, to Php113 million mainly due to the SPi Group's lower commission, advertising and marketing expenses.

Taxes and licenses increased by Php6 million, or 6%, to Php104 million primarily due to higher business-related taxes.

Insurance and security services increased by Php7 million, or 11%, to Php68 million primarily due to higher security services.

Other expenses decreased by Php10 million, or 5%, to Php183 million mainly due to lower various business and ICT operational-related costs.

Other Income (Expenses)

The following table summarizes the breakdown of our total ICT-related other income (expenses) net for the years ended December 31, 2009 and 2008:

	2009	2008	Change Amount	%
	(in millions)			
Other Income (Expenses):				
Equity share in net earnings of associates	Php 168	Php 17	Php 151	888
Interest income	28	22	6	27
Gains (losses) on derivative financial instruments net	8	(59)	67	114
Foreign exchange gains (losses) net	(12)	93	(105)	(113)
Financing costs net	(171)	(172)	1	(1)
Others	195	98	97	99
Total	Php 216	Php (1)	Php 217	21,700

Our ICT business generated other income net of Php216 million in 2009, an increase of Php217 million as against other expenses net of Php1 million in 2008 primarily due to the combined effects of the following: (i) an increase in equity share in net earnings of associates by Php151 million; (ii) an increase in other income by Php97 million on account of the de-recognition of liabilities; (iii) an increase in net gains on forward foreign exchange contracts by Php67 million; and (iv) net foreign exchange losses of Php105 million due to the revaluation of net

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foreign currency-denominated assets as a result of the effect of the appreciation of the Philippine peso to the U.S. dollar in 2009.

Benefit from Income Tax

Benefit from income tax decreased by Php71 million, or 72%, to Php28 million in 2009 from Php99 million in 2008 primarily due to a higher taxable income and expiration of tax incentives.

Net Income (Loss)

Our ICT business registered a net income of Php504 million in 2009, an improvement of Php2,690 million, or 123%, from a net loss of Php2,186 million in 2008 mainly as a result of Php566 million increase in ICT revenues, other income net of Php217 million and Php1,978 million decrease in ICT-related expenses partially offset by lower benefit from income tax of Php71 million.

Adjusted EBITDA

Our ICT business adjusted EBITDA was Php1,330 million in 2009, an increase of Php274 million, or 26%, as compared with Php1,056 million in 2008 primarily due to higher revenues, partially offset by the increase in expenses particularly compensation and employee benefits, cost of sales, repairs and maintenance, and rent expenses.

Core Income

Our ICT business core income in 2009 was Php613 million, an increase of Php475 million, or 344%, as compared with Php138 million in 2008 primarily due to lower expenses and higher revenues, partially offset by lower benefit from income tax.

Plans and Prospects

We are the largest and most diversified telecommunications company in the Philippines. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to attain undisputed market leadership across all metrics. We plan to adopt an integrated approach to our customers with the delivery of a superior customer experience. We will reinforce our leading position in network quality and reach while offering a broader range and higher quality of products and services. In addition, we intend to align the deployment of our fixed line and wireless platforms and technologies such that these initiatives dovetail and result in cost efficiencies. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

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 and the balance represents the budgeted capital spending of our other subsidiaries. The higher than usual level of capital expenditures stems from the acceleration of our technology roadmap, given current market dynamics and the anticipated surge in demand for data. The budget also includes provisions for the modernization of our networks, adapting to the more voice- and data-centric environment.

Our capital expenditure projects can be classified as follows:

- (1) Technical Objectives these include the upgrade and modernization of the wireless network in order to realize operating and cost efficiencies, provide greater resilience and redundancy, as well as investments in additional cable systems;
- (2) Commercial Objectives these include the provisioning of expanded capacity and coverage as well as new platforms to expand service offerings; and
- (3) IT/Support Systems these include the upgrade of our IT and support systems.

Given the favorable state of our financial position, we expect to fund incremental capital expenditures from both debt and free cash flow.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2010, 2009 and 2008 as well as our consolidated capitalization and other consolidated selected financial data as at December 31,

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2010 and 2009:

	2010	2009 (in millions)	2008
Cash Flows			
Net cash provided by operating activities	Php 77,260	Php 74,386	Php 78,302
Net cash used in investing activities	23,283	49,132	17,014
<i>Capital expenditures</i>	28,766	28,069	25,203
Net cash used in financing activities	55,322	20,293	45,464
Net increase (decrease) in cash and cash equivalents	(1,641)	4,635	16,237

	2010	2009 (in millions)
Capitalization		
Interest-bearing financial liabilities:		
Long-term portion of financial liabilities:		
Long-term debt	Php 75,879	Php 86,066
Obligations under finance lease	9	13
	75,888	86,079
Current portion of interest-bearing financial liabilities:		
Notes payable		2,279
Long-term debt maturing within one year	13,767	10,384
Obligations under finance lease maturing within one year	34	51
	13,801	12,714
Total interest-bearing financial liabilities	89,689	98,793
Total equity	97,069	98,575
	Php 186,758	Php 197,368

Other Selected Financial Data

Total assets	Php 277,815	Php 280,148
Property, plant and equipment net	163,184	161,256
Cash and cash equivalents	36,678	38,319
Short-term investments	669	3,824

Our consolidated cash and cash equivalents and short-term investments totaled Php37,347 million as at December 31, 2010. Principal sources of consolidated cash and cash equivalents were cash flows from operating activities amounting to Php77,260 million, proceeds from avilment of long-term debt of Php7,246 million, net proceeds from maturity of short-term investments of Php3,142 million and interest received of Php1,165 million. These funds were used principally for: (1) dividend payments of Php41,080 million; (2) capital outlays of Php28,766 million; (3) total debt principal and interest payments of Php14,645 million and Php5,580 million, respectively; and (4) settlement of derivative financial instruments of Php1,095 million.

Our consolidated cash and cash equivalents and short-term investments totaled Php42,143 million as at December 31, 2009. Principal sources of consolidated cash and cash equivalents were cash flows from operating

activities amounting to Php74,386 million in 2009 and drawings mainly from PLDT's and Smart's debt facilities, including notes payable, aggregating Php43,989 million and net proceeds from maturity of short-term investments of Php2,890 million. These funds were used principally for: (1) dividend payments of Php39,286 million; (2) payments for purchase of investments in subsidiaries and associates of Php27,059 million, including PCEV's acquisition of Meralco shares of Php18,070 million and settlement of the tender offer to PCEV's non-controlling interests of Php6,618 million; (3) capital outlays of Php28,069 million; (4) total debt principal and interest payments of Php19,228 million and Php5,239 million, respectively; (5) payment for an exchangeable note issued by First Pacific Utilities Corporation, or FPUC, to PCEV (including derivative option) of Php2,000 million; and (6) a buyback of shares of PLDT of Php1,752 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php2,874 million, or 4%, to Php77,260 million in 2010 from Php74,386 million in 2009 primarily due to lower pension contribution and lower level of settlement of various payables. Net cash flows from operating activities decreased by Php3,916 million, or 5%, to Php74,386 million in 2009 from Php78,302 million in 2008 primarily due to higher pension contributions made to the beneficial trust fund partially offset by lower other working capital requirements.

Cash flows from operating activities of our wireless business amounted to Php55,497 million in 2010, an increase of Php439 million, or 1%, as compared with Php55,058 million in 2009 as a result of a lower level of settlement of accounts payable, partially offset by higher level of outstanding receivables mainly from dealers, carriers and subscribers and LTIP payout in 2010. Cash flows from operating activities of our fixed line business

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amounted to Php20,454 million in 2010, an increase of Php2,544 million, or 14%, as compared with Php17,910 million in 2009 primarily due to higher collection of accounts receivables and lower pension contributions made to the beneficial trust fund, partially offset by LTIP payout in 2010 and higher level of settlement of accounts payable and other current liabilities in 2010. Cash flows from operating activities of our ICT business decreased by Php96 million, or 7%, to Php1,327 million in 2010 from Php1,423 million in 2009 mainly due to higher working capital requirements in 2010.

Cash flows from operating activities of our wireless business amounted to Php55,058 million in 2009, an increase of Php12,278 million, or 29%, as compared with Php42,780 million in 2008. The increase in our wireless business cash flows from operating activities was primarily a result of lower prepayments of leased circuits, higher collection of receivables, and higher level of various current liabilities in 2009 as compared with 2008. On the other hand, cash flows from operating activities of our ICT business decreased by Php329 million, or 19%, to Php1,423 million in 2009 from Php1,752 million in 2008 mainly due to higher working capital requirements in 2009. Cash flows from operating activities of our fixed line business decreased by Php15,884 million, or 47%, to Php17,910 million in 2009 from Php33,794 million in 2008 primarily due to lower level of advance payments received from various customers, higher pension contributions made to the beneficial trust fund and lower collection of accounts receivable.

Dividend payments received by PLDT from Smart amounted to Php33,500 million, Php37,440 million and Php24,200 million in 2010, 2009 and 2008, respectively. Of this, Php7,000 million, Php6,000 million and Php5,500 million were paid on July 16, 2010, September 7, 2010 and December 10, 2010, respectively, while the remaining Php15,000 million remains unpaid. Of the Php37,440 million declared in 2009, Php14,800 million, Php5,640 million and Php17,000 million were paid on April 13, 2009, September 11, 2009 and April 6, 2010, respectively, while of the Php24,200 million declared in 2008, Php10,000 million, Php7,200 million and Php7,000 million were paid on April 11, 2008, September 3, 2008 and September 18, 2008, respectively.

PCEV paid cash dividends to common shareholders amounting to Php6,077 million and Php5,061 million in 2009 and 2008, of which Php5,640 million and Php4,664 million, respectively, was paid to Smart. PCEV paid cash dividends to various preferred shareholders in the aggregate amount of Php2,943 million in 2007, of which Php2,930 million was paid to PLDT.

Investing Activities

Consolidated net cash used in investing activities amounted to Php23,283 million in 2010, a decrease of Php25,849 million, or 53%, as compared with Php49,132 million in 2009 primarily due to the combined effects of the following: (1) lower purchase of investment in subsidiaries and associates by Php26,858 million mainly due to PCEV's acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer of PCEV's non-controlling shareholders of Php6,618 million in 2009; (2) higher net proceeds from the maturity of short-term investments by Php252 million; (3) higher dividends received in 2010 by Php174 million; (4) increase in capital expenditures by Php697 million in 2010; (5) lower net proceeds of investments in debt securities by Php427 million; (6) increase in advances and refundable deposits by Php230 million; and (7) lower interest received by Php187 million.

Consolidated net cash used in investing activities amounted to Php49,132 million in 2009, an increase of Php32,118 million, or 189%, as compared with Php17,014 million in 2008. This increase was primarily due to the combined effects of the following: (1) higher payments for investments in subsidiaries and associates by Php26,303 million mainly due to PCEV's acquisition of Meralco shares amounting to Php18,070 million and the settlement of the tender offer to PCEV's non-controlling shareholders of Php6,618 million; (2) lower net proceeds from the maturity of short-term investments by Php4,514 million; (3) an increase in capital expenditures by Php2,866 million in 2009; and (4) higher net proceeds from the maturity of investments in debt securities by Php1,214 million, mainly from net redemption of various treasury bonds of Php2,651 million partially offset by the payment of Php1,437 million for the purchase of an exchangeable note with face value of Php2,000 million issued by FPUC to PCEV as part of the Meralco shares acquisition transaction.

Our consolidated capital expenditures totaled Php28,766 million in 2010, an increase of Php697 million, or 2%, as compared with Php28,069 million in 2009 primarily due to increase in Smart's capital spending. Smart's capital spending of Php16,944 million in 2010 was used primarily to build a secondary network for unlimited services, to

expand its 3G broadband network, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,874 million in 2010 was principally used to finance the expansion and

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upgrade of its domestic fiber optic network facilities, NGN roll-out, fixed line data and IP-based network services and outside plant rehabilitation. ePLDT and its subsidiaries' capital spending of Php750 million in 2010 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

Our consolidated capital expenditures totaled Php28,069 million in 2009, an increase of Php2,866 million, or 11%, as compared with Php25,203 million in 2008 primarily due to an increase in PLDT's capital spending. Smart's capital spending of Php16,247 million in 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. PLDT's capital spending of Php10,991 million in 2009 was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services and outside plant rehabilitation. ePLDT and its subsidiaries' capital spending of Php729 million in 2009 was primarily used to fund the continued expansion of its customer relationship management facilities. The balance represented other subsidiaries' capital spending.

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

On July 14, 2009, PCEV completed its acquisition of 223 million shares in Meralco for a cash consideration of Php18,070 million for the purchase of approximately 200.8 million shares and the conversion into approximately 22.2 million shares of an exchangeable note issued by FPUC with a market value, including its derivative option, of Php3,286 million. Thus, the investment in 223 million shares in Meralco was recorded at Php21,356 million and a gain of Php1,286 million was recognized on the exchangeable note representing the mark-to-market gains of Php1,170 million from the derivative option and the amortization of the note's discount of Php116 million. Please see Item 4. Information on the Company's Development Activities (2008-2010) and 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.

In view of the change in PCEV's business direction upon the acquisition of Meralco shares, Smart's Board of Directors approved a tender offer to acquire the approximately 840 million shares from PCEV's non-controlling shareholders (representing approximately 7.19% of the outstanding shares of PCEV) at Php8.50 per share payable entirely in cash on August 12, 2009. Approximately 93% of PCEV's non-controlling shares tendered and Smart paid Php6,618 million to tendering shareholders on August 12, 2009, thereby increasing its ownership in PCEV to approximately 99.5% of PCEV's outstanding common stock. 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 statements of financial position. Please see Note 2 Summary of Significant Accounting Policies and Note 13 Business Combinations and Acquisition of Non-Controlling Interests to the accompanying consolidated financial statements in Item 18 for further discussion.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php55,322 million in 2010, an increase of Php35,029 million, or 173%, as compared with Php20,293 million in 2009 resulting largely from the combined effects of the following: (1) lower proceeds from the issuance of long-term debt and notes payable by Php36,743 million in 2010; (2) lower avilment of capital expenditures under long-term financing by Php3,240 million; (3) higher cash dividend payments by Php1,794 million; (4) higher interest payments by Php341 million; (5) lower repayments of long-term debt and notes payable by Php4,583 million; (6) lower share buyback by Php1,646 million; and (7) lower settlement of derivative financial instruments by Php818 million. The net cash used in financing activities in 2008 was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments, interest payments and buyback of PLDT's common stock.

Debt Financing

Additions to our consolidated debt, including notes payable, totaled Php7,246 million and Php43,989 million for the years ended December 31, 2010 and 2009, respectively, mainly from PLDT's and Smart's drawings related to the financing of our capital expenditure requirements and maturing loan obligations. Payments of principal and interest on our total debt amounted to Php14,645 million and Php5,580 million, respectively, in 2010 and Php19,228 million and Php5,239 million, respectively, in 2009.

Our consolidated long-term debt decreased by Php6,804 million, or 7%, to Php89,646 million in 2010, largely due to debt amortizations and prepayments and the appreciation of the Philippine peso relative to the U.S.

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dollar to Php43.81 in December 31, 2010 from Php46.43 in December 31, 2009, partially offset by drawings from our term loan facilities. The debt levels of PLDT and Smart decreased by 9% and 5% to Php49,017 million and Php40,514 million, respectively, as at December 31, 2010 as compared with December 31, 2009.

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance capital expenditures and/or to refinance its loan obligations which were also used to finance capital expenditures for network expansion and improvement. The amount of Php2,500 million remained outstanding as at December 31, 2010.

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used to finance Smart's capital expenditures for network improvement and expansion. The amount of Php2,484 million, net of unamortized debt discount, remained outstanding as at December 31, 2010.

On March 9, 2011, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures. Tranche A amounting to Php1,000 million was issued on March 16, 2011 and Tranche B amounting to Php1,000 million to be issued in multiple drawdowns of Php250 million each, all of which are payable in full in five years from their respective issue dates. As at March 29, 2011, Php1,250 million has been drawn from this facility.

On March 15, 2011, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,500 million, which was drawn in full on March 22, 2011. The facility is a five-year loan, payable in full upon maturity on March 22, 2016.

On March 24, 2011, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated March 22, 2011, comprised of Series A five-year notes amounting to Php3,435 million, Series B seven-year notes amounting to Php700 million and Series C ten-year rate notes amounting to Php865 million. Proceeds from the facilities will be used to finance capital expenditures and refinance existing debt obligations which were also used to finance service improvements and expansion programs.

On March 24, 2011, Smart signed a Philippine Peso term loan facility with Philippine National Bank to finance capital expenditures for an amount of Php2,000 million, which was drawn in full on March 29, 2011. The facility is a five-year loan, payable in full upon maturity on March 29, 2016.

Approximately Php63,969 million principal amount of our consolidated outstanding long-term debt as at December 31, 2010 is scheduled to mature over the period from 2011 to 2014. Of this amount, Php39,410 million is attributable to Smart, Php24,443 million to PLDT, and the remainder to ePLDT.

For further details on our long-term debt, see Note 20 Interest-bearing Financial Liabilities Long-term Debt to the accompanying consolidated financial statements in Item 18.

Debt Covenants

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

Please see Note 20 Interest-bearing Financial Liabilities Debt Covenants to the accompanying consolidated financial statements in Item 18 for a detailed discussion of our debt covenants.

Financing Requirements

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

Consolidated cash dividend payments amounted to Php41,080 million in 2010, an increase of Php1,794 million, or 5%, as compared with Php39,286 million paid to shareholders in 2009. On March 1, 2011, we declared regular and special cash dividends of Php78 per share and Php66 per share, respectively, in addition to the Php78 per share regular cash dividend declared last August 3, 2010, altogether representing approximately 100% payout of our

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2010 core earnings per share. On August 4, 2009, we declared a regular cash dividend of Php77 per share and on March 2, 2010, we declared regular and special cash dividends of Php76 and Php65 per share, respectively, representing in aggregate approximately a 100% payout of our 2009 core earnings per share.

On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 core earnings per share.

See Item 3 Key Information Dividends Declared and Dividends Paid and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for further information on our dividend payments.

Off-Statement of Financial Position Arrangements

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

Equity Financing

Through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million in each of 2010 and 2009 from this source. PLDT raised Php15 million from the exercise by certain officers and executives of stock options in 2009.

As part of our goal to maximize returns to our shareholders, we obtained board of directors approval for a share buyback program of up to five million shares of PLDT s common stock, representing approximately 3% of PLDT s total outstanding shares of common stock. We had acquired a total of approximately 2.72 million shares of PLDT s common stock, representing approximately 1% of PLDT s outstanding shares of common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million in accordance with the share buyback program as at December 31, 2010. We had acquired a total of approximately 2.68 million shares of PLDT s common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. The effect of the acquisition of shares of PLDT s common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the years ended December 31, 2010 and 2009. Our weighted average number of common shares was approximately 186.8 million and 186.9 million in the years ended December 31, 2010 and 2009, respectively. Please see Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchaser and Note 8 Earnings Per Common Share, Note 19 Equity and Note 28 Financial Assets and Liabilities to the accompanying consolidated financial statements in Item 18 for further details.

Table of Contents**Contractual Obligations and Commercial Commitments****Contractual Obligations**

The following table shows our consolidated contractual undiscounted obligations outstanding as at December 31, 2010:

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years (in million pesos)	3-5 years	
December 31, 2010					
<i>Debt</i> ⁽¹⁾ :	113,394	6,569	51,308	33,978	21,539
Principal	92,590	6,206	38,263	29,335	18,786
Interest	20,804	363	13,045	4,643	2,753
<i>Lease obligations:</i>	8,003	4,383	1,710	948	962
Operating lease	7,959	4,353	1,697	947	962
Finance lease	44	30	13	1	
<i>Unconditional purchase obligations</i> ⁽²⁾	797	271	263	263	
<i>Other obligations:</i>	68,714	50,247	13,895	683	3,889
Derivative financial liabilities ⁽³⁾ :	4,173		1,667	674	1,832
Long-term currency swaps	4,173		1,667	674	1,832
Various trade and other obligations:	64,541	50,247	12,228	9	2,057
Suppliers and contractors	32,997	20,957	12,040		
Utilities and related expenses	16,477	16,446	10	3	18
Employee benefits	3,853	3,853			
Customers deposits	2,223		178	6	2,039
Dividends	2,086	2,086			
Carriers	1,866	1,866			
Others	5,039	5,039			
Total contractual obligations	190,908	61,470	67,176	35,872	26,390

⁽¹⁾ Consist of notes payable and long-term debt, including current portion; gross of unamortized debt discount and debt issuance costs.

⁽²⁾ Based on the Amended ATPA with AIL.

⁽³⁾ Gross liabilities before any offsetting application.

For a detailed discussion of our consolidated contractual undiscounted obligations as at December 31, 2010 and 2009, please see Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

Commercial Commitments

Our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,145 million and Php1,317 million as at December 31, 2010 and 2009, respectively. These commitments will expire within one year.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. The average inflation rate in the Philippines in 2010 was 3.8% as compared with 3.2% in 2009. Moving forward, we expect inflation to increase, which may have an adverse impact on our operations.

Please see Item 11. Quantitative and Qualitative Disclosures about Market Risks Foreign Currency Exchange Risk for a description of the impact of foreign currency fluctuations on us.

Table of Contents**Item 6. Directors, Senior Management and Employees****Directors, Key Officers and Advisors**

The name, age and period of service, of each of the current directors, including independent directors, of PLDT are as follows:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	64	November 24, 1998 to present
Napoleon L. Nazareno	61	November 24, 1998 to present
Donald G. Dee ⁽¹⁾	64	September 30, 2008 to December 5, 2010
Helen Y. Dee	66	June 18, 1986 to present
Ray C. Espinosa	54	November 24, 1998 to present
Tatsu Kono	58	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J. ⁽²⁾	70	November 24, 1998 to present
Takashi Ooi	49	November 6, 2007 to present
Juan B. Santos ⁽³⁾	72	January 25, 2011 to present
Oscar S. Reyes	64	April 5, 2005 to present
Albert F. del Rosario ⁽⁴⁾	71	November 24, 1998 to present
Pedro E. Roxas ⁽²⁾	54	March 1, 2001 to present
Alfred V. Ty ⁽²⁾	43	June 13, 2006 to present
Tony Tan Caktiong	58	July 8, 2008 to present
Ma. Lourdes C. Rausa-Chan ⁽⁵⁾	57	March 29, 2011 to present

(1) *Resigned effective December 6, 2010.*

(2) *Independent Director.*

(3) *Elected effective January 25, 2011.*

(4) *Resigned effective March 25, 2011.*

(5) *Elected effective March 29, 2011.*

The name, age, position and period of service of the key officers and advisor of PLDT as at February 28, 2011 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Manuel V. Pangilinan	64	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno	61	President and Chief Executive Officer	February 19, 2004 to present
		President and Chief Executive Officer of Smart	January 2000 to present
Ray C. Espinosa	55	Regulatory Affairs and Policies Head	March 4, 2008 to present
Ma. Lourdes C. Rausa-Chan	57	Corporate Secretary	November 24, 1998 to present
		Senior Vice President Corporate Affairs and Legal Services Head	January 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present

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Anabelle L. Chua	50	Senior Vice President Corporate Finance and Treasury Head Treasurer Chief Financial Officer of Smart	February 26, 2002 to present March 1, 1998 to present February 1, 1999 to present December 1, 2005 to present
Ernesto R. Alberto	49	Senior Vice President Customer Sales and Marketing Head Corporate Business Head	May 15, 2003 to present February 1, 2008 to present May 15, 2003 to January 31, 2008
Rene G. Bañez	55	Senior Vice President Administration and Materials Management Head Chief Governance Officer	January 25, 2005 to present January 1, 2008 to present October 5, 2004 to March 3, 2008
Jun R. Florencio	55	Senior Vice President Internal Audit and Fraud Risk Management Head Audit and Assurance Head	June 14, 2005 to present February 16, 2006 to present September 1, 2000 to February 15, 2006
Menardo G. Jimenez, Jr.	47	Senior Vice President Human Resources Head and Business Transformation Office Head Business Transformation Office Revenue Team Head Retail Business Head Corporate Communications and Public Affairs Head	December 9, 2004 to present August 1, 2010 to present January 1, 2008 to July 2010 June 16, 2004 to December 31, 2007 December 1, 2001 to June 15, 2004

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Name	Age	Position(s)	Period during which individual has served as such
George N. Lim	58	Senior Vice President	February 26, 1999 to present
		Network Services Assurance Head	October 16, 2010 to present
		Business Transformation Office	January 1, 2008 to present
		Network Team Head	
Alfredo S. Panlilio ⁽¹⁾	47	Senior Vice President	February 1, 2003 to December 31, 2007
		International and Carrier Business Head	May 8, 2001 to December 15, 2010
		PLDT Global Corp. President	February 1, 2003 to June 15, 2004
		Senior Vice President	June 16, 2004 to December 15, 2010
Claro Carmelo P. Ramirez	50	Senior Vice President	July 1, 1999 to present
		Office of the President and CEO	January 1, 2008 to present
		Consumer Affairs Head	December 5, 2005 to December 31, 2007
		International and Carrier Business Head	June 16, 2004 to December 4, 2005
Victorico P. Vargas ⁽²⁾	59	Retail Business Head	February 1, 2003 to June 15, 2004
		Senior Vice President	February 15, 2000 to August 1, 2010
		Human Resources Head	February 15, 2000 to August 1, 2010
		International and Carrier Business Head	March 1, 2007 to December 31, 2007
June Cheryl A. Cabal	37	Business Transformation Office Head	January 1, 2008 to August 1, 2010
		First Vice President	May 6, 2008 to present
		Financial Reporting and Controllership Head	November 15, 2006 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
Christopher H. Young	53	Chief Financial Advisor	November 24, 1998 to present

⁽¹⁾ *Availed of the MRP effective at the close of business hours on December 15, 2010.*

⁽²⁾ *Availed of the MRP effective at the close of business hours on August 1, 2010.*

Under the Shareholders Agreement entered into among the FP Parties, NTT Communications and NTT-UK on September 28, 1999, as amended by the Cooperation Agreement dated January 31, 2006, NTT Communications is entitled to nominate two directors to the PLDT board of directors and the FP Parties are entitled to nominate six directors. The Shareholders Agreement also entitles NTT Communications to nominate two directors to the board of directors of Smart and, subject to specified conditions, one member to the board of directors of all other PLDT subsidiaries. However, as a result of the Cooperation Agreement, in respect of NTT Communications' right to nominate two directors to each of the board of directors of PLDT and Smart, respectively, NTT Communications and the FP Parties agreed to vote as a PLDT shareholder, lobby the directors of PLDT and otherwise use reasonable efforts to procure a shareholders' vote in favor of replacing on each of the board of directors of PLDT and Smart,

respectively, one NTT Communications nominee with one NTT DoCoMo nominee. Under the Shareholders Agreement, NTT Communications is also entitled to appoint members or advisors of certain PLDT management and board committees, including the audit, governance and nomination, executive compensation and technology strategy committees described below under Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, and as a result of the Cooperation Agreement, the FP Parties and NTT Communications agreed to use reasonable efforts to procure that NTT DoCoMo be entitled to appoint one individual, who may be replaced at any time, to attend any board committee of PLDT as a member, advisor or observer. Moreover, the Cooperation Agreement provides that upon NTT Communications, NTT DoCoMo and their subsidiaries owning in the aggregate 20% or more of the shares of PLDT's common stock and for as long as NTT Communications, NTT DoCoMo and their subsidiaries continue to own in the aggregate 17.5% of the shares of PLDT's common stock then outstanding, NTT DoCoMo will be entitled to additional rights under the Stock Purchase and Strategic Investment Agreement and the Shareholders Agreement, including the right to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. 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 the outstanding shares of PLDT's common stock. As a result, NTT DoCoMo is currently entitled to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Under the Shareholders Agreement and the Cooperation Agreement, each party has agreed, under certain circumstances, to vote its shares of common stock in favor of the nominees designated by the other parties. For more information about the Cooperation Agreement, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The business address of each of the other directors, key officers and advisors identified above is the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

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The following is a brief description of the business experiences of each of our directors, key officers and advisors for at least the past five years.

Mr. Manuel V. Pangilinan has been a director of PLDT since November 24, 1998. He was appointed as Chairman of the Board of PLDT after serving as its President and Chief Executive Officer, or CEO, from November 1998 to February 2004. He is the Chairman of the Governance and Nomination and Technology Strategy Committees of the Board of Directors of PLDT. He also serves as Chairman of Smart, PCEV, ePLDT, SPi, SPi CRM, MPIC, Landco Pacific Corporation, Maynilad Water Services, Inc., Philex Mining Corporation, Manila North Tollways Corporation, Medical Doctors, Inc. (Makati Medical Center), Colinas Verdes, Inc. (Cardinal Santos Medical Center), and Davao Doctors, Inc. He is also a director and the President and Chief Executive Officer of Meralco.

Mr. Pangilinan founded First Pacific in 1981 and served as Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named as Chief Executive Officer and Managing Director. He also holds the position of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

Outside the First Pacific Group, Mr. Pangilinan is the Chairman of the Board of Trustees of San Beda College, PLDT-Smart Foundation, Inc., the Hongkong Bayanihan Trust and the Philippine Business for Social Progress, the Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, and a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc. In February 2007, he was named the President of the Samahang Basketbol ng Pilipinas, a newly formed national sport association for basketball, and effective January 2009, he assumed the chairmanship of the Amateur Boxing Association of the Philippines, the governing body of amateur boxers in the country.

Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the President Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Management Man of the Year by the Management Association of the Philippines (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), Honorary Doctorate in Humanities by the Xavier University (2007), and Global Filipino Executive of the Year (Asia CEO Awards 2010). He was also voted as Corporate Executive Officer of the Year (Philippines), Best Executive (Philippines) at the 2007 and 2008 Best-Managed Companies and Corporate Governance Polls conducted by *Asiamoney*.

Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts Degree in Economics. He received his Master's Degree in Business Administration from Wharton School of Finance and Commerce at the University of Pennsylvania.

Mr. Napoleon L. Nazareno has been a director of PLDT since November 24, 1998 and is a member of the TSC of the Board of Directors of PLDT. He was appointed as President and Chief Executive Officer of PLDT on February 19, 2004 and is concurrently the President and Chief Executive Officer of Smart, PCEV and CURE, positions he has held since January 2000, November 2004 and April 2008, respectively. He also serves as Chairman of several subsidiaries of Smart including Wolfpac, SBI, I-Contacts. His other directorships include Mabuhay Satellite where he is Chairman, ACeS Philippines where he is also the President, PLDT Global, ePLDT, SPi, SPi CRM and Meralco. He is a non-executive director of First Pacific.

Mr. Nazareno is also a board member of the GSM Association Worldwide and a director of the Wireless Applications Community, an international alliance of telecommunications companies. Mr. Nazareno is also the Chairman of the Board of Trustees and Governors of Asian Institute of Management.

Mr. Nazareno's business experience spans several countries in over 30 years and his exposure cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last decade, telecommunications and information technology. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the President and

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Chief Executive Officer of Akerlund & Rausing (Phils.), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as President and Chief Executive Officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. In February 2006, he became part of the Private Sector Advisory Board of the Commission on Information and Communications Technology, under the Office of the President of the Philippines. Mr. Nazareno is also a board member of GSM Association Worldwide since November 2004. He was voted Corporate Executive Officer of the Year (Philippines) for three consecutive years at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by *Asiamoney*.

Mr. Nazareno received his Master's Degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France.

Ms. Helen Y. Dee has been a director of PLDT since June 18, 1986. She is the Chairman or a director of several companies engaged in the banking, insurance and real property businesses and the President and/or Chief Executive Officer of GPL Holdings, Inc., House of Investments, Inc., Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation and Chairperson of Rizal Commercial Banking Corporation, RCBC Savings Bank and Malayan Insurance Company. Ms. Dee received her Master's Degree in Business Administration from De La Salle University.

Mr. Tatsu Kono has been a director of PLDT since March 28, 2006. He is a member of the Governance and Nomination, Executive Compensation and Technology Strategy Committees and advisor to the Audit Committee of the Board of Directors of PLDT. He is also the Chief Operating Advisor of PLDT. He joined NTT DoCoMo in 2000 and served as Executive Director of the Global Investment Group. In 2001, he was appointed as a member of the Board of Directors and Vice President In-Charge for Sales and Marketing of KG Telecom. He has been a Managing Director of Corporate Sales Department, Corporate Marketing Division of NTT DoCoMo since 2003. Prior to that, he occupied various management positions in Kokusai Denshin Denwa Co., Ltd. (KDD). Mr. Kono received his Bachelor of Law Degree from the Waseda University.

Rev. Fr. Bienvenido F. Nebres, S.J. has been a director of PLDT since November 24, 1998. He is the Chairman of the Audit Committee and a member of the Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the President and a member of the Board of Trustees of the Ateneo de Manila University, the Chairman of the Board of Trustees of the Center for Leadership and Change, Inc., the Vice Chairman of the Board of Trustees of the Asian Institute of Management and a member of the Board of Trustees of several private educational institutions including Loyola School of Theology, and Sacred Heart School - Jesuit Cebu City. He is also a member of the Board of Trustees of Manila Observatory and Philippine Institute of Pure and Applied Chemistry. Rev. Fr. Nebres received his Ph.D in Mathematics from the Stanford University.

Mr. Takashi Ooi has been a director of PLDT since November 6, 2007. He built his career in NTT and its subsidiaries NTT Communications and NTT America. He is presently the Senior Vice President for Global Business of NTT Communications, in charge of product/service development and global network design/engineering and proposal/installation/delivery of global network and solutions for global multi-national companies. Prior to that, he held management positions in various departments of NTT Communications and served as Vice President for Product Management Global Division of NTT Communications, Director of NTT America and Technical Advisor to Telegent, Inc. Mr. Ooi obtained his Master of Science Degree in Physics and Master of Business Administration Degree from the University of Tokyo and Boston University, respectively.

Mr. Oscar S. Reyes has been an independent director of PLDT since April 5, 2005. Effective August 2010, his status changed to a regular director in view of his appointment as Senior Executive Vice President and Chief Operating Officer/Chief Energy Adviser of Meralco. He serves as a member of the TSC of the Board of Directors of PLDT. He is the Chairman of Link Edge, Inc. and MRL Gold Phils., Inc. and a director/independent director of various public companies and private firms engaged in electricity, banking, energy, financial and business advisory services, manufacturing, mining, shipping, real estate and related activities.

Mr. Reyes was the Country Chairman of the Shell Companies in the Philippines from 1997 to 2001 and concurrently the Managing Director of Shell Philippines Exploration B.V. until 2002. From 1997 to 2004, he was the Senior Management Adviser of Shell Exploration B.V. and from 2002 to 2006, the CEO Adviser of Pilipinas Shell

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Petroleum Corporation. Mr. Reyes completed the Master in Business Administration Program of the Ateneo Graduate School of Business and the Program in Management Development of Harvard Business School, and holds a Diploma in International Business from the Waterloo Lutheran University, Canada.

Mr. Pedro E. Roxas has been a director of PLDT since March 1, 2001. He serves as a member of the Governance and Nomination, Audit and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman and/or Chief Executive Officer/President of various business organizations in the fields of agri-business, sugar manufacturing and real estate development including Roxas Holdings Inc., Roxas and Company, Inc., Roxaco Land Corporation, Central Azucarera Don Pedro, Inc., Central Azucarera de la Carlota, Inc., Roxol Bioenergy Corporation, Fuego Land Corporation and Hawaiian Philippine Sugar Company, an independent director of Meralco, and a director of Brightnote Assets Corporation and BDO Private Bank. Mr. Roxas received his Bachelor of Science Degree in Business Administration from the University of Notre Dame, Indiana, U.S.A.

Mr. Juan B. Santos has been a director of PLDT since January 25, 2011. He is the Chairman of the Social Security Commission, or SSC, and a member of the Board of Directors of Alaska Milk Corporation, FPHC, Grepalife Financials, Inc., Philex Mining Corporation and Zuellig Group, Inc., a member of the Board of Advisors of Coca Cola Bottlers Phils., Inc. and East-West Seeds Co., Inc., a trustee of St. Lukes Medical Center, and a consultant of the Marsman-Drysdale Group of Companies.

Mr. Santos retired as Chief Executive Officer of Nestle Philippines, Inc. (NPI) in 2003 and continued to serve as Chairman of NPI until 2005. Prior to his appointment as President and CEO of NPI, he was CEO of NPI of the Nestle Group of Companies in Thailand and Nestle Singapore Pte Ltd. He served as Secretary of Trade and Industry from February 2005 to July 2005. He obtained his Bachelor of Science Degree in Business Administration from Ateneo de Manila University and pursued post graduate studies at the Thunderbird Graduate School of Management in Arizona, U.S.A. and Advanced Management Course at IMD in Lausanne, Switzerland.

Mr. Tony Tan Caktiong has been a director of PLDT since July 8, 2008. He is the Chairman and Chief Executive Officer of Jollibee Foods Corporation, a leader in the fastfood business, which owns and operates a chain of restaurants nationwide and abroad. He is also the Chairman of Jollibee Foundation, a director of First Gen Corporation and a member of the Board of Trustees of Temasek Foundation and St. Luke's Medical Center. Mr. Tan Caktiong honed his business skills by attending various courses and seminars in several educational institutions such as the Asian Institute of Management, Stanford University (Singapore) and Harvard University.

Mr. Alfred V. Ty has been a director of PLDT since June 13, 2006. He serves as a member of the Audit, Governance and Nomination and Executive Compensation Committees of the Board of Directors of PLDT. He is the Chairman of Lexus Manila, Inc. and Asia Pacific Top Management International Resources, Corp. (Marco Polo Plaza Cebu), the Vice Chairman of Toyota Motors Philippines Corporation, the President of Federal Land, Inc., a director of Global Business Power Corp. and the Corporate Secretary of Metropolitan Bank and Trust Company and Metrobank Foundation, Inc. Mr. Ty received his Bachelor of Science Degree in Business Administration from the University of Southern California.

Atty. Ray C. Espinosa has been a director of PLDT since November 24, 1998. He is the Head of the Regulatory Affairs and Policies Group of PLDT since March 2004. He also serves as the President and Chief Executive Officer of MediaQuest Holdings, Inc., ABC Development Corporation (TV5), Mediascape, Inc. (Cignal TV), Nation Broadcasting Corporation and other subsidiaries of MediaQuest Holdings, Inc. and is the Vice Chairman of Philweb, and the Board of Trustees of the PLDT Beneficial Trust Fund. He is a director of several companies engaged in electricity, mining, other public utility and media businesses.

Atty. Espinosa served as President and Chief Executive Officer of ePLDT from August 21, 2000 until April 15, 2010. Prior to joining PLDT, he was a partner and member of the Executive Committee of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2000. He topped the Philippine Bar examination in 1982 after graduating Salutatorian of Law Class 1982 from the Ateneo de Manila University and received his Master of Laws Degree from the University of Michigan Law School.

Atty. Ma. Lourdes C. Rausa-Chan was appointed as director of PLDT on March 29, 2010. She has been serving as Corporate Secretary, Corporate Affairs and Legal Services Head and Chief Governance Officer of PLDT since November 1998, January 1999 and March 2008, respectively. She also serves as Corporate Secretary of PCEV and

several subsidiaries of PLDT. Prior to joining PLDT, she was the Group Vice President for Legal Affairs of

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Metro Pacific Corporation and the Corporate Secretary of some of its subsidiaries. Atty. Rausa-Chan obtained her Bachelor of Arts Degree in Political Science and Bachelor of Laws Degree from the University of the Philippines.

Except for Messrs. Tatsu Kono and Takashi Ooi who are Japanese citizens, all of the other directors/independent directors are Filipino citizens.

Ms. Anabelle L. Chua, Treasurer and Corporate Finance and Treasury Head, concurrently holds the position of Chief Financial Officer of Smart since 2006. She holds directorships in Smart and several subsidiaries of PLDT and Smart including ePLDT, PCEV, Wolfpac, SBI, CURE, Airborne Access, SHI, and Chikka Holdings Limited. She is a member of the Board of Trustees of the PLDT Beneficial Trust Fund. She has over 20 years of experience in the areas of corporate finance, treasury, financial control and credit risk management, and was a Vice President at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She graduated magna cum laude from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy.

Mr. Ernesto R. Alberto, Customer Sales and Marketing Group Head, leads all revenue generation relationship initiatives of PLDT including product/market development, product management, marketing, sales and distribution, and customer relationship management. He is the Chairman, director and/or President of Subicel, Clarktel, Philcom, Maratel, Telesat, SBI-Cruztelco, BCC and Mabuhay Satellite, SNMI and NTT Communications Phils. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development and, prior to joining PLDT in 2003, was a Vice President and Head of the National Corporate Group of Citibank N.A., Manila from 1996 to May 2003. He previously served as Vice President and Head of the Relationship Management Group of Citytrust Banking Corporation. Mr. Alberto obtained his Master's Degree in Economic Research from the University of Asia and the Pacific.

Mr. Rene G. Bañez, Administration and Materials Management Group Head, was the Chief Governance Officer of PLDT from October 2004 to March 3, 2008 and the Support Services and Tax Management Group Head of PLDT from January 1999 to January 2001. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the Group Vice President for Tax Affairs of Metro Pacific Corporation for 3 years until December 1998. He holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Laws Degree from the Ateneo de Manila University.

Mr. Jun R. Florencio, Internal Audit and Fraud Risk Management Head, has over 25 years of work experience in the areas of external and internal audit, revenue assurance, credit management, information technology, financial management and controllership. He was the Financial Controller of Smart for four years before he joined PLDT in April 1999. He held various positions in the finance organization of another telecommunications company prior to joining Smart. Mr. Florencio obtained his Bachelor of Science Degree in Commerce, Major in Accounting from the University of Santo Tomas and attended the Management Development Program of the Asian Institute of Management.

Mr. Menardo G. Jimenez, Jr., Human Resources Group Head and concurrently Business Transformation Office Head, was Revenue Team Head of the Business Transformation Office from January 2008 to July 2010, the Retail Business Head of PLDT from June 2004 to December 31, 2007 and, prior to that, the Corporate Communications and Public Affairs Head. He had a stint at GMA Network, Inc., where he served as head of a creative services and network promotions. He won the first CEO Excel Awards (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communications strategies in managing the PLDT retail business team to meet its targets and achieve new heights in the landline business. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez obtained his AB Economics Degree from the University of the Philippines.

Mr. George N. Lim, Network Service Assurance Team Head and concurrently Network Team Head of the Business Transformation Office, has over 30 years of work experience in telecommunications management. He was the Network Services Head from February 2003 to December 2007, Network Development and Provisioning Head from February 1999 to January 2003 and Marketing Head from December 1993 to February 1999. Mr. Lim holds directorships in some subsidiaries of PLDT. He obtained his Bachelor of Science Degree in Electrical Engineering from the Mapua Institute of Technology and Master of Science Degree in Industrial Economics from the University of

Asia and Pacific (formerly Center for Research and Communication).

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Mr. Claro Carmelo P. Ramirez has over 20 years of work experience in the field of marketing. Prior to joining PLDT, he held various managerial positions in Colgate Palmolive Philippines, Inc., and served as Associate Director for Global Business Development of Colgate Palmolive Company in New York and as Marketing Director of Colgate Palmolive Argentina, S.A.I.C. He holds directorships in Intelligent Network Plus, Inc. and Sidera Technologies, Inc. He graduated with honors from the Ateneo de Manila University with a Bachelor of Arts Degree Major in Economics.

Ms. June Cheryl A. Cabal, Controller and Financial Reporting and Controllershship Head, is also a director and the chief financial officer/treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc. She is also the Chief Finance Officer of the Philippine Disaster Recovery Foundation. Prior to joining PLDT in June 2000 as an executive trainee in the Finance Group, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She was the 2008 Young Achievers Awardee for Commerce and Industry conferred by the Philippine Institute of Certified Public Accountants. In March 2010, she was appointed as a member of the Financial Reporting Standards Council of the Philippines. Ms. Cabal obtained her Bachelor of Science Degree in Accountancy from De La Salle University and Master in Business Management Degree from the Asian Institute of Management.

Mr. Christopher H. Young is our chief financial advisor. He worked in PricewaterhouseCoopers in London and Hong Kong from 1979 until 1987, at which time he joined First Pacific in Hong Kong as group financial controller. He joined Metro Pacific Corporation in 1995 as finance director, a position he held until he joined us in November 1998.

The following is a brief description of the business experience of the other member of senior management of PLDT as at February 28, 2011:

Mr. Rolando G. Peña was designated, in January 2011, to head the evaluation, analysis, execution of the accelerated network build-out program encompassing fixed, wireless, broadband and IT network of PLDT and Smart. Prior to that, he was Head of Customer Service Assurance Group since January 2008 and was responsible for overseeing all customer fulfillment services, including customer service and network engineering and operations. From 1999 to 2007, he was the Head of Network Services Division of Smart and prior to joining Smart in 1994, he was the First Vice President in charge of Technical Operations of Digital Telecommunications Philippines, Inc. Mr. Peña holds directorships in some subsidiaries of PLDT and Smart. He obtained his Electronics and Communications Engineering Degree from Pamantasan ng Lungsod ng Maynila.

The following is a list of directorships in other private and public companies of the directors/independent directors named below:

Name of Director	Name of Companies	
	Public	Private
Helen Y. Dee	EEI Corporation National Reinsurance Corporation of the Philippines (Chairman) Petro Energy Resources Corporation Rizal Commercial Banking Corporation (Chairman) Seafront Resources Corporation Bankard, Inc.	AY Holdings, Inc. Great Life Financial Assurance Corporation Great Pacific Life Assurance Corp. Hi-Eisai Pharmaceuticals, Inc. (Chairman) Honda Cars, Kalookan Honda Cars Philippines, Inc. Isuzu Philippines, Inc. La Funeraria Paz, Inc. (Chairman) Landev Corp. (Chairman) Malayan Insurance Company (Chairman) Manila Memorial Park Cemetery, Inc. (Chairman) Mapua Information Technology Center, Inc. (Chairman) Merchants Bank (Chairman) MICO Equities, Inc. Pan Malayan Express

Pan Malayan Management and Investment Corporation (Vice Chairman)
Pan Malayan Realty Corp. (Chairman)
RCBC Forex Brokers Corp.(Chairman)
RCBC Savings Bank (Chairman)
South Western Cement Corporation (Chairman)
Xamdu Motors, Inc. (Chairman)

Ray C. Espinosa Cyber Bay Corporation

ABC Development Corporation

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Name of Director	Name of Companies	
	Public	Private
	Lepanto Consolidated Mining Company (Independent Director)	Beacon Electric Asset Holdings, Inc.
	Metro Pacific Investments Corporation Manila Electric Company Philweb Corporation (Vice Chairman)	Bonifacio Communications Corporation ePDS, Inc. Meralco PowerGen Corporation Metro Pacific Assets Holdings, Inc. Metro Pacific Resources, Inc. Philippine Telecommunications Investment Corporation
Oscar S. Reyes	Alcorn Gold Resources, Inc. (Independent Director) Ayala Land, Inc. (Independent Director) Bank of the Philippine Islands Basic Energy Corporation (Independent Director) Manila Water Company, Inc. (Independent Director) Pepsi Cola Products Philippines, Inc. (Independent Director)	Mindoro Resources Ltd. Petrolift, Inc. (Independent Director) Smart Communications, Inc. Sun Life Dollar Advantage Fund, Inc. (Independent Director) Sun Life Dollar Abundance Fund, Inc. (Independent Director) Sun Life Financial Plans, Inc. (Independent Director)

Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

Family Relationships

None of the directors, key officers and advisors of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

Compensation of Key Management Personnel

The aggregate compensation paid to our key officers and directors named above, as a group, for 2010 amounted to approximately Php877 million.

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The following table below sets forth the aggregate amount of compensation paid in 2010 and 2009 and estimated amount of compensation expected to be paid in 2011 to: (1) the President and Chief Executive Officer, Napoleon L. Nazareno and four most highly compensated officers of PLDT, as a group, namely; Menardo G. Jimenez, Jr., Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan in 2010 and 2011, and Victorico P. Vargas, Anabelle L. Chua, Ernesto R. Alberto and Ma. Lourdes C. Rausa-Chan in 2009; and (2) all other key officers, other officers and directors, as a group.

	2011 Estimate	2010 Actual (in millions)	2009
President and CEO ⁽¹⁾ and four most highly compensated key officers:			
Salary ⁽²⁾	Php55	Php51	Php47
Bonus ⁽³⁾	14	12	10
Other compensation ⁽⁴⁾	46	225	52
	115	288	109
All other key officers, other officers and directors as a group (excluding the President and CEO and four most highly compensated key officers):			
Salary ⁽²⁾	227	232	204
Bonus ⁽³⁾	62	61	54
Other compensation ⁽⁴⁾	215	1,087	246
	Php504	Php1,380	Php504

(1) The President and CEO receives compensation from Smart but not from PLDT.

(2) Basic monthly salary.

(3) Includes longevity pay, mid-year bonus, 13th month and Christmas bonus.

(4) Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both individual and group/team performance and is tied to the achievement of Corporate/Unit/Customer Satisfaction Objectives. It covers regular officers and executives of PLDT and is based on a percentage of their guaranteed annual cash compensation. The 2010 other compensation includes LTIP payments during the year.

Each of the directors of the Company is entitled to a director's fee for each meeting of the Board of Directors attended. In addition, the directors who serve in the committees of the Board of Directors, namely, the Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, are each entitled to a fee for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved an increase in director's board meeting attendance fees to Php200 thousand from Php125 thousand and board committee meeting attendance fees to Php75 thousand from Php50 thousand. The attendance fees for directors were last adjusted in July 1998. The Executive Compensation Committee recommended the increase taking into consideration PLDT's profitability growth (versus Board remuneration) and the results of the survey on Board remuneration conducted by Watson Wyatt, which showed that

PLDT's directors' remuneration, consisting only of fees for meeting attendance, and/or retainer fees and profit share were below the median of directors' remuneration among participating companies in the survey.

Except for the fees mentioned above, the directors are not compensated, directly or indirectly, for their services as such directors. The aggregate amount of per diems paid to the directors for their attendance in Board and Board Committee meetings is included in other compensation in the above table. The total amount of per diems paid in 2010 and 2009 were approximately Php35 million and Php36 million, respectively. The total amount of per diems estimated to be paid in 2011 is approximately Php39 million.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group's retirement and incentive plans.

Long-term Incentive Plan

On August 28, 2006, the PLDT's Board of Directors approved, in principle, the broad outline of the PLDT Group's strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, 2007 to 2009 LTIP, upon endorsement of the ECC, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the 2007 to 2009 Performance Cycle. The payment under the 2007 to 2009 LTIP was intended to be made at the end of the 2007 to 2009 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the 2007 to 2009

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Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle. The 2007 to 2009 LTIP payments were made in April 2010.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the Employees Compensation Commission and Board of Directors, and is based on profit targets covering the Performance Cycle. The cost of the new LTIP is determined using the projected unit credit method based on assumed discount rates and profit targets.

The LTIP was a cash plan that was intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group, and administered by the ECC which has the authority to determine: (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant's annual base compensation and taking into account such participant's seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

The fair value of the 2007 to 2009 LTIP recognized as expense amounted to Php1,833 million and Php1,281 million, respectively for the years ended December 31, 2009 and 2008. The outstanding LTIP liability amounted to Php4,582 million as at December 31, 2009, which was paid in April 2010. Total outstanding liability and fair value of the 2010 to 2012 LTIP amounted to Php1,392 million as at and for the year ended December 31, 2010. See Note 3 Management's Use of Judgments, Estimates and Assumptions, Note 5 Income and Expenses, Note 23 Accrued and Other Current Liabilities and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

There are no other warrants or options held by PLDT's officers or directors either singly or collectively.

Share Ownership

The following table sets forth information regarding ownership of our common stock and preferred stock, as at February 28, 2011, by our continuing directors, key officers and advisors. Each individual below owns less than 1% of our outstanding common and preferred shares.

Name of Owner	Shares of Common Stock	Shares of Preferred Stock
Manuel V. Pangilinan	227,450 ⁽¹⁾	360
Napoleon L. Nazareno	13,927 ⁽¹⁾	495
Helen Y. Dee	98	180
Ray C. Espinosa	18,743 ⁽¹⁾	
Takashi Ooi	1	
Tatsu Kono	100	
Rev. Fr. Bienvenido F. Nebres, S.J.	2	
Oscar S. Reyes	1	360
Albert F. del Rosario ⁽²⁾	140,005 ⁽³⁾	2,100
Pedro E. Roxas	21	540
Juan B. Santos ⁽⁴⁾	2	360
Alfred V. Ty	1	
Tony Tan Caktiong	1	50
Ma. Lourdes C. Rausa-Chan	699 ⁽¹⁾	350
Ernesto R. Alberto	9,000 ⁽¹⁾	
Rene G. Bañez	1	540
Anabelle L. Chua	13,878 ⁽¹⁾	
Jun R. Florencio	15	530
Menardo G. Jimenez, Jr.	22	

George N. Lim	5,356 ⁽¹⁾	360
Claro Carmelo P. Ramirez	11,500	
June Cheryl A. Cabal		
Christopher H. Young	54,313 ⁽¹⁾	

(1) Includes PLDT common shares that have been lodged with the Philippine Depository and Trust Co., or PDTC.

(2) Resigned effective March 25, 2011.

(3) Out of the 140,005 common shares, 140,004 common shares are under the name of Albert F. del Rosario and/or Margaret Gretchen del Rosario.

(4) Elected effective January 25, 2011.

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The aggregate number of shares of common and preferred stock directly and indirectly owned by directors, key officers and advisors listed above, as at February 28, 2011, was 495,136 and 6,225 respectively, or approximately 0.265% and less than 0.001% of PLDT's outstanding shares of common and preferred stock, respectively.

Board of Directors Independent Directors

At least three of our directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Pedro E. Roxas and Alfred V. Ty, are independent directors who are neither officers nor employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as independent directors. The independence standards/criteria are provided in our By-Laws and Manual on Corporate Governance pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees

Our board of directors is authorized under the by-laws to create committees, as it may deem necessary. We currently have four board committees, namely, the audit, governance and nomination, executive compensation and technology strategy committees, the purpose of which is to assist our board of directors. Each of these committees has a board-approved written charter that provides for such committee's composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board of directors.

Audit Committee

Our audit committee is composed of three members, all of whom are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Alfred V. Ty. Mr. Tatsu Kono, a non-independent member of our board of directors, Mr. Roberto R. Romulo, an independent member of our advisory board/committee, and Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, serve as advisors to the audit committee. All of the members of our audit committee are financially literate and Ms. Corazon S. de la Paz-Bernardo, an advisor to the audit committee, is an accounting and financial management expert.

As provided for in the audit committee charter, the purpose of the audit committee is to assist our board of directors in fulfilling its oversight responsibilities for: (i) PLDT's accounting and financial reporting principles and policies and internal audit controls and procedures; (ii) the integrity of PLDT's financial statements and the independent audit thereof; (iii) PLDT's compliance with legal and regulatory requirements; and (iv) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;

- to select and appoint the external auditors and to remove or replace the external auditors;

- to review and approve in consultation with the head of the internal audit organization and the chief financial advisor the fees charged by the external auditors for audit and non-audit services;

- to pre-approve all audit and non-audit services to be provided by and all fees to be paid to the external auditors;

- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor's independence;

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to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT's accounts is rotated at least once every five years;

to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;

to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and

to resolve disagreements between management and the external auditors regarding financial reporting.

The audit committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

Audit Committee Report

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2010 that:

Each voting member of the audit committee is an independent director as determined by the board of directors;

In the performance of their oversight responsibilities, the audit committee has reviewed and discussed our financial statements as at and for the year ended December 31, 2009 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our financial statements with generally accepted accounting principles;

The audit committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;

The audit committee has received written disclosures and the letter from SGV & Co. pursuant to Rule 3526 of the Public Company Accounting Oversight Board (Communication with Audit Committees Concerning Independence) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;

The audit committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The audit committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;

Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to our board of directors and our board has approved, the inclusion of our financial statements as at and for the year ended December 31, 2009 in our Annual Report to the Stockholders and to the Philippine SEC and U.S. SEC on Form 17-A; and

Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as our independent auditor.

Governance and Nomination Committee

Our GNC is composed of five voting members, all of whom are regular members of our Board of Directors and three non-voting members, including Former Chief Justice Artemio V. Panganiban, who serves as an independent non-voting member. Three of the voting members are independent directors namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Pedro E. Roxas. Two are non-independent directors namely, Mr. Tatsu Kono and

Mr. Manuel V. Pangilinan who is the chairman of this committee. Former Chief Justice Artemio V. Panganiban is the independent non-voting member; Mr. Menardo G. Jimenez, Jr., and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

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The principal functions and responsibilities of our GNC are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;
2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring board appointment;
3. To identify the qualified nominees and recommend that the board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and
4. To provide an assessment on our board's effectiveness in the process of replacing or appointing new directors or members of the board committees.

Executive Compensation Committee

Our ECC is composed of five voting members, all of whom are regular members of our Board of Directors, and one non-voting member. Three of the voting members are independent directors, namely Mr. Pedro E. Roxas, Rev. Fr. Bienvenido F. Nebres, S.J., and Mr. Alfred V. Ty, and two are non-independent directors, namely, Mr. Tatsu Kono and Mr. Albert F. del Rosario, who is chairman of this committee as at December 31, 2010. Mr. Menardo G. Jimenez, Jr. is the non-voting member.

The principal functions and responsibilities of our ECC are:

1. To provide guidance to and assist our board of directors in developing a compensation philosophy or policy consistent with our culture, strategy and control environment;
2. To oversee the development and administration of our compensation programs; and
3. To review and approve corporate goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives, and set the compensation level of our chief executive officer based on such evaluation.

Technology Strategy Committee

Our TSC is composed of six members, all of whom are voting members. Five are non-independent directors, namely Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Atty. Ray C. Espinosa, Mr. Oscar S. Reyes and Mr. Tatsu Kono. Mr. Orlando B. Veja, a member of our advisory board/committee, is the non-voting member of this committee.

The principal functions and responsibilities of our TSC are:

1. To review and approve our technology strategy and roadmap, and to review and advise our board on major technology trends and strategies;
2. To evaluate and advise our board on actual and proposed technology investments and transactions;
3. To review and submit to the board recommendations regarding management's formulation and execution and overall performance in achieving technology-related strategic goals and objectives; and
4. To recommend to the board approaches to acquiring and maintaining technology positions and maximizing our access to relevant technologies, and to ensure optimized contribution of technology to our business strategy and growth targets.

Effective June 12, 2007, our board of directors dissolved the finance committee, since, for several years thereto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our board.

Directors and Officers Involvement in Certain Legal Proceedings

The Company is not aware, and none of the directors/independent directors and officers or persons nominated for election to such positions has informed the Company, of any of the following events that occurred

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during the past five years:

- (b) any bankruptcy petition filed by or against any business of which a director/independent director or officer or person nominated for election as a director/independent director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (c) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director/independent director or officer or person nominated for election as a director/independent director or officer, except as noted below;
- (d) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director/independent director or officer or person nominated for election as a director/independent director or officer in any type of business, securities, commodities or banking activities; and

any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director/independent director or officer or person nominated for election as a director/independent director or officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

The following is a description of the complaints in which our director and President and Chief Executive Officer, Mr. Napoleon L. Nazareno and director and Corporate Secretary, Ms. Ma. Lourdes C. Rausa-Chan are respondents:

1. Mr. Napoleon L. Nazareno and other directors and officers of the former PDCP Bank and some officers of the BSP and Development Bank of the Philippines (hereinafter the Respondents), were charged in a complaint docketed as I.S. No. 2004-631 filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. (the Complainants) with the Department of Justice, or DOJ, for alleged syndicated estafa, estafa thru falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the Complainants alleged that the officers and directors of PDCP Bank deceived the Complainants to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the Complainants corporation. As stated in Mr. Nazareno s counter-affidavit, the charges against him are manifestly unmeritorious since he has not personally met the Complainants, nor is he a party to the questioned transactions and, as such, could not have deceived the Complainants in any manner. The complaint was referred to the Office of the Ombudsman, or OMB, by the DOJ on October 30, 2007 considering that some of the Respondents are public officers and the offenses charged were committed in the performance of their official functions.

Meanwhile, on July 23, 2008, the Complainants filed with the DOJ a Motion for Reconsideration of a Resolution of the DOJ dated September 7, 2007 dismissing their complaint. It appears that prior to forwarding the case records to the OMB, the DOJ has prepared a Resolution recommending the dismissal of all the charges against the Respondents but did not release the said Resolution to the parties because it wanted the OMB to conduct a review of the DOJ Resolution in view of the fact that some of the Respondents are public officers.

In an Order dated July 30, 2008, the OMB confirmed that it was conducting a review of the said DOJ Resolution for the abovestated reason and that its authority relative to the case forwarded to it by the DOJ is limited to conducting a review of the DOJ Resolution and not to conduct another preliminary investigation of the case.

In the OMB s Review and Recommendation dated November 28, 2008, the OMB approved the DOJ Resolution dated September 7, 2007 dismissing the complaint and referred the case to the DOJ for

appropriate action.

The Complainants filed separate Motions for Reconsideration before the DOJ and OMB on July 16, 2008 and December 1, 2009, respectively. On December 16, 2009, the DOJ issued a Resolution

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denying the Complainants Motion for Reconsideration for lack of merit. In response, the Complainants filed a Petition for Review with the Secretary of Justice on March 2, 2010. Mr. Nazareno and the other Respondents have filed their respective Comments to the petition, which remain pending to date with the Office of the Secretary of Justice.

With respect to the Complainants Motion for Reconsideration with the OMB, the latter issued an Order dated December 4, 2009 denying the same and affirming its Review and Recommendation of November 28, 2008. In response, the Complainants filed a Petition for Certiorari with the Court of Appeals (CA) on July 12, 2010. In a Resolution dated July 26, 2010, the CA dismissed the petition for lack of jurisdiction. The Complainants filed a Motion for Reconsideration on August 17, 2010. Acting on the said motion, the CA issued a Resolution dated September 1, 2010, requiring the Respondents to file their Comment to the motion. On September 28, 2010, the Respondents through counsel filed their Opposition to the Complainants Motion for Reconsideration. In a Resolution dated December 1, 2010, the CA noted the respective Comments and/or Opposition filed by the Respondents and considered the Complainants Motion for Reconsideration submitted for resolution.

2. Atty. Ma. Lourdes C. Rausa-Chan and other former corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation, are respondents in a complaint docketed as OMB C-C-04-0363-H (CPL No. C-04-1248), filed with the OMB. The complaint is for alleged: (a) violation of Republic Act No. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); (b) estafa through falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code; (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It relates to various tax credit certificates (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly, a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The complaints against Atty. Rausa-Chan involve the first two offenses only and in her capacity as corporate secretary of Metro Paper and Packaging Products, Inc. In the opinion of the legal counsel of Atty. Rausa-Chan, there are no legal and factual bases for her inclusion as respondent in this complaint. Atty. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. The case is still pending with the OMB.

Employees and Labor Relations

As at December 31, 2010, we had 28,770 employees within the PLDT Group, with 5,165, 7,395 and 16,210 employees in our wireless, fixed line and ICT groups, respectively. PLDT had 7,008 employees as at December 31, 2010, of which 26% were rank-and-file employees, 68% were management/supervisory staff and 6% were executives. This number represents a decrease of 535, or approximately 7%, from the staff level as at December 31, 2009, mainly as a result of the ongoing MRP. From a peak of 20,312 employees, as at December 31, 1994, PLDT s number of employees declined by 13,304 employees, or 65%, as at December 31, 2010.

We and our business units had the following employees as at December 31 of each of the following years:

	2010	2009	2008
PLDT Group	28,770	29,035	29,904
<i>Wireless</i>	<i>5,165</i>	<i>5,507</i>	<i>5,602</i>
<i>Fixed Line</i>	<i>7,395</i>	<i>7,947</i>	<i>7,813</i>
<i>ICT</i>	<i>16,210</i>	<i>15,581</i>	<i>16,489</i>
PLDT Only	7,008	7,543	7,590

The decrease in the number of employees within the PLDT Group from 2009 to 2010 primarily resulted from the MRP in our fixed line and wireless businesses.

PLDT has three employee unions, representing in the aggregate 4,811, or 17% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees union, our supervisors union and our sales supervisors union to be good.

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On October 7, 2009, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees union, concluded and signed a new three-year CBA covering the period from November 9, 2009 to November 8, 2012. This CBA provides each member a signing bonus equivalent to one month's salary (computed at the salary rate prevailing prior to November 9, 2009) plus Php15,000; expeditious agreement bonus of Php20,000; increase of the monthly salary of Php2,500, Php2,600 and Php2,800 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php8,000 to Php9,000; an increase in the amount of coverage under the group life insurance plan from Php650,000 to Php750,000; and Php45,000 funeral assistance for the death of a dependent. Other provisions of this CBA include increases in the rice subsidy and professional fee subsidy for dependent's hospitalization.

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

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

Pension and Retirement Benefits*Defined Benefit Pension Plans*

We have defined benefit pension plans, covering substantially all of our permanent and regular employees, except the employees of Smart and its subsidiary, I-Contacts. The plans require contributions to be made to a separate administrative fund.

PLDT has a trustee-managed, non-contributory defined benefit pension plan covering all permanent and regular employees. The benefit pension plan provides benefits upon normal retirement beginning at age 65, early retirement beginning at age 50 or completion of at least 30 years of credited service, voluntary resignation with completion of at least 15 years of credited service, total and physical disability, death and involuntary separation. Benefits are based on the employee's final monthly basic salary and length of service.

The normal retirement benefit is equal to a percentage of the final monthly basic salary per year of credited service. The percentage is 100% for those with less than 15 years of service at retirement and 125% for those with 15 years of service at retirement. Thereafter, the percentage increases by 5% for every additional year of credited service up to a maximum of 200%. Early retirement benefit is equal to the accrued normal retirement benefit based on salary and service at the date of early retirement.

In the event the benefit pension plan's assets are insufficient to pay the required retirement benefits, PLDT would be obligated to fund the amount of the shortfall. In addition, claims of PLDT's employees for retirement benefits that have accrued would rank above the claims of all other creditors of PLDT, in the event of PLDT's bankruptcy or liquidation.

Defined Contribution Plan

Smart maintains a trustee-managed, tax-qualified, multi-employer plan covering substantially all permanent and regular employees. The plan has a defined contribution format limiting Smart's obligation to a specified contribution to the plan. It is being financed by the participating companies (Smart and its subsidiary, I-Contacts) and contribution by

employees is optional.

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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 as at December 31, 2010 amounted to Php479 million and unrecognized net actuarial losses as at December 31, 2009 amounted to Php2,474 million. As at December 31, 2010 and 2009, the prepaid benefit costs amounted to Php5,333 million and Php5,414 million, respectively. The accrued benefit costs amounted to Php415 million and Php359 million as at December 31, 2010 and 2009, respectively. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see Note 3 Management's Use of Judgments, Estimates and Assumptions, Note 5 Income and Expenses and Note 25 Share-based Payments and Employee Benefits to the accompanying consolidated financial statements in Item 18.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information regarding ownership of shares of PLDT's common stock as at February 28, 2011, of all shareholders known to us to beneficially own more than 5% of PLDT's shares of common stock, or, collectively, our Major Shareholders. All shares of PLDT's common stock have one vote per share. Our Major Shareholders do not have voting rights that are different from other holders of shares of PLDT's common stock.

Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Philippine Telecommunications Investment Corporation ⁽¹⁾ 12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City	Philippine Corporation	Same as Record Owner	26,034,263 ⁽²⁾	13.94
Common	Metro Pacific Resources, Inc. ⁽³⁾ c/o Corporate Secretary 18th Floor, Liberty Center, 104 H. V. dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Same as Record Owner	15,745,172 ⁽²⁾	8.43
Common	NTT Communications Corporation ⁽⁴⁾ 1-1-6 Uchisaiwai-cho 1-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote (5)	12,633,487	6.76
Common	NTT DoCoMo, Inc. ⁽⁶⁾ 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote (5)	18,234,821 ⁽⁷⁾	9.76
Common	Social Security System ⁽⁸⁾ SSS Building East Avenue, Quezon City	Philippine Corporation	Same as Record Owner	5,024,789 ⁽⁹⁾	2.69

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Common	PCD Nominee Corporation ⁽¹⁰⁾ 37/F Enterprise Building, Tower I Ayala Avenue cor. Paseo de Roxas St. Makati City	Philippine Corporation	See Footnote (10)	53,084,846	28.42
Common	J. P. Morgan Asset Holdings (HK) Limited ⁽¹¹⁾ (various accounts) 20/F Chater House 8 Connaught Road Central, Hongkong	HongKong Corporation	See Footnote (11)	45,102,238	24.15
Common	Lazard Asset Management LLC ⁽¹²⁾	Delaware Corporation	See Footnote (12)	13,525,292	7.24

⁽¹⁾ *Based on a resolution adopted by the Board of Directors of PTIC, the Chairman of the Board of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.*

⁽²⁾ *First Pacific Group beneficially owned 26% of the outstanding common stock of PLDT as at February 28, 2011 by virtue of PLDT common*

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shareholdings by intermediate holding companies, including PTIC and MPRI.

- (3) *Based on a resolution adopted by the Board of Directors of MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI in the Annual Meeting.*
- (4) *Based on publicly available information, NTT Communications is a wholly-owned subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT Communications, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT Communications.*
- (5) *In publicly available reports filed by NTT Communications and NTT DoCoMo, it is stated that because of NTT's ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DoCoMo, NTT, NTT Communications and NTT DoCoMo may be considered to constitute a group within the meaning of Section 13(d)(3) of the U.S Securities Exchange Act of 1934, as amended. Therefore, each of them may be deemed to have beneficial ownership of the 39,401,561 shares in aggregate held by NTT Communications and NTT DoCoMo, representing approximately 21% of the outstanding common stock of PLDT as at February 28, 2011.*
- (6) *Based on publicly available information, NTT DoCoMo, is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DoCoMo, Mr. Toshinari Kunieda or Mr. Mutsuo Yamamoto, is authorized to execute for and on behalf of NTT DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DoCoMo.*
- (7) *The total PLDT shareholdings of NTT DoCoMo is 26,768,074 shares, of which 18,234,821 are owned on record by NTT DoCoMo, and 8,533,253 are shares underlying ADSs, collectively representing 14.33% of the outstanding common stock of PLDT as at February 28, 2011.*
- (8) *Based on a resolution adopted by the Board of Directors of the SSC, Mr. Juan B. Santos, as Chairman of the SSC, has been authorized to sign the proxy constituting the lawful attorney/proxy of SSS with full power to represent and vote the PLDT shares of common stock of SSS in the Annual Meeting of PLDT.*
- (9) *The total PLDT shareholdings of SSS is 10,703,748 shares of PLDT of which 5,024,789 are owned on record by SSS and 5,678,959 shares are held on record by PCD, collectively representing 5.73% of the outstanding common stock of PLDT as at February 28, 2011.*
- (10) *PCD is the registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. Based on available information, none of the owners of the PLDT common shares registered under the name of PCD, owned more than 5% of PLDT's outstanding common stock as at February 28, 2011, except The Hongkong and Shanghai Banking Corp. Ltd. Clients, which owned approximately 14.92% of PLDT's outstanding common stock as of such date. PLDT has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking*

Corp. Ltd. Clients owned more than 5% of PLDT s outstanding common stock as at February 28, 2011.

The PCD account also includes 5,678,959 shares of PLDT common stock beneficially owned by the SSS.

- (11) *JP Morgan Asset Holdings (HK) Limited holds shares as nominee of JPMorgan Chase Bank, successor depositary under the Common Stock Deposit Agreement, dated October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of ADRs evidencing ADSs, representing shares of common stock of PLDT (the Deposit Agreement). Under the Deposit Agreement, if the depositary does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depositary to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.*

This account also includes 8,533,253 shares of PLDT common stock underlying ADS beneficially owned by NTT DoCoMo, and 13,525,292 shares of PLDT common stock underlying ADSs beneficially owned by Lazard Asset Management LLC, or LAMLLC.

- (12) *According to the Schedule 13G/A of LAMLLC filed with the U.S. Securities and Exchange Commission on February 11, 2011, LAMLLC, as an investment adviser, beneficially owned 13,525,292 shares of PLDT common stock. LAMLLC confirmed that all of the 13,525,292 shares of PLDT common stock are underlying ADSs.*

As at February 28, 2011, approximately 86.25% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

Related Party Transactions

For a detailed discussion of our material related party transactions, see Note 24 Related Party Transactions to the accompanying consolidated financial statements in Item 18.

Except for the transactions discussed in Note 24 Related Party Transactions to the accompanying consolidated financial statements in Item 18, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between PLDT and any: (i) director, officer, direct or indirect owner of 10% or more of the outstanding shares in PLDT; (ii) close family member of such director, officer or owner; (iii) associates of PLDT; (iv) enterprises controlling, controlled by or under common control with PLDT; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, officer or owner of 10% or more of the outstanding shares in PLDT or any close family member of such director, key officer or owner, or collectively, the Related Parties.

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There was no outstanding indebtedness at any time during the last three financial years that was owed to PLDT and/or its subsidiaries by any Related Party.

Item 8. Financial Information**Consolidated Financial Statements and Other Financial Information**

See Item 18 Financial Statements.

Legal Proceedings

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

NTC SRF

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC have been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated July 28, 1999, ordered the NTC to make a recomputation of the SRF based on PLDT's capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on December 4, 2007, held that the computation of SRF should be based on the outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, the NTC assessed PLDT the total amount of Php2,870 million, as SRF, which included penalties and interest. On April 3, 2008, PLDT paid NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but did not pay the penalties and interest assessed by the NTC. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments of the same amount. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded payment of the balance of its assessment. On July 9, 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals (the Petition) praying that the NTC be restrained from enforcing or implementing its assessment letter of February 29, 2008, and demand letters dated April 14, 2008 and June 18, 2008, all demanding payment of SRF including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said assessment letter and demand letters. The Court of Appeals, in its Decision dated May 25, 2010, granted PLDT's Petition and set aside/annulled the NTC's letters-assessments dated February 29, 2008, April 14, 2008 and June 18, 2008. The NTC did not file a Motion for Reconsideration of the decision of the Court of Appeals. Instead, the NTC, through the Solicitor General, filed a petition for review directly with the Supreme Court. PLDT, through counsel, received a copy of the petition on July 29, 2010, and after receiving the order of the Supreme Court to file its comment, filed its Comment on the petition on December 7, 2010. As at March 29, 2011, this case is still pending with the Supreme Court.

Matters Relating to a Third Party Aggregator

In late 2009, PLDT informally received a communication which provided a complaint, or the Draft, setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary, Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long

distance telephone traffic to that third-party entity so that long distance traffic which otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that

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PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

In light of the nature of the allegations and out of an abundance of caution, PLDT's Board of Directors referred the Draft for review by the Audit Committee. The Audit Committee appointed an independent Investigation Committee to oversee an investigation into the allegations contained in the Draft. The Audit Committee retained independent counsel to lead in the investigation. To preserve the confidential nature of the inquiry, the investigation was limited to internal sources at PLDT, including current PLDT and Smart employees, internal records and discrete inquiries and public records searches.

The independent counsel, under the oversight of the Investigation Committee, has concluded on the basis of the evidence within the control of PLDT or otherwise reasonably available, that: (i) while the investigation cannot definitively exclude the possibility, the investigation has found no evidence to establish that PLDT's officers and employees were personally involved in the creation of the third-party entity referred to in the Draft and has found no evidence of any improper personal financial benefit or gain by these officers and employees, directly or indirectly from such third party entity; and (ii) while Smart had substantial business relationships with various third-party aggregators of long-distance telephone traffic during the relevant period, including the third-party entity referred to in the Draft (with which Smart ceased doing business in 2008), there is no evidence that the relationship with such third-party entity in fact resulted in a material adverse impact on PLDT's revenues during the relevant period and may have in fact benefited PLDT overall through an increase in overall call volume.

On May 7, 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee.

Taxation*Local Business and Franchise Taxes*

PLDT, Smart and PCEV currently face various local business and franchise tax assessments by different local government units.

PLDT, Smart and PCEV believe that under Philippine laws then prevailing, they are exempt from payment of local franchise and business taxes to local government units and are contesting the assessment of these taxes in some of these cases.

For more information, see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

Arbitration with Eastern Telecommunications Philippines, Inc., or ETPI

Since 1990 (up to present), PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not put to rest their issues against each other. Accordingly, to avoid further protracted litigation and improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

Other disclosures required by IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* were not provided as it may prejudice our position in on-going claims, litigations and assessments.

For more information, see Note 27 Provisions and Contingencies to the accompanying consolidated financial statements in Item 18.

Dividend Distribution Policy

Please see Item 3. Key Information Dividends Declared for a description of our dividend distribution policy, and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for tables that show dividends declared in 2010.

Table of Contents**Item 9. The Offer and Listing****Common Capital Stock and ADSs**

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

For the period from January 1 to February 28, 2011, a total of 4.9 million shares of PLDT's common capital stock were traded on the Philippine Stock Exchange. During the same period, the volume of trading was 3.3 million ADSs on the NYSE.

As at February 28, 2011, 10,492 stockholders were Philippine persons and held approximately 35.53% of PLDT's common capital stock. In addition, as at February 28, 2011, there were a total of approximately 53.8 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 335 holders.

High and low sales prices for PLDT's common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
2011				
First Quarter				
January	2,550.00	2,456.00	58.80	55.55
February	2,524.00	2,150.00	56.44	49.48
March (until March 29, 2011)	2,292.00	1,990.00	53.50	46.08
2010				
First Quarter	2,775.00	2,420.00	60.65	53.05
Second Quarter	2,540.00	2,320.00	57.49	50.04
Third Quarter	2,630.00	2,355.00	59.92	51.47
September	2,630.00	2,398.00	59.92	54.10
Fourth Quarter	2,764.00	2,360.00	64.35	53.61
October	2,764.00	2,596.00	64.35	59.52
November	2,684.00	2,364.00	63.45	53.61
December	2,558.00	2,360.00	58.70	54.28
2009	2,670.00	1,830.00	58.17	38.43
First Quarter	2,310.00	1,830.00	49.80	38.43
Second Quarter	2,620.00	2,125.00	52.16	43.01
Third Quarter	2,625.00	2,300.00	54.50	48.12
Fourth Quarter	2,670.00	2,405.00	58.17	51.12
2008	3,175.00	1,810.00	76.72	36.05
2007	3,285.00	2,250.00	76.30	45.25
2006	2,610.00	1,675.00	51.90	32.15

Item 10. Additional Information**Articles of Incorporation and By-Laws**

The following summarizes certain provisions of PLDT's Articles of Incorporation and By-Laws and applicable Philippine law. This summary is qualified in its entirety by reference to the Corporation Code of the Philippines (the Corporation Code) and PLDT's Articles of Incorporation and By-Laws. Information on where investors can obtain copies of the Articles of Incorporation and By-Laws is described under the heading Documents Available.

Purpose of PLDT

PLDT's Articles of Incorporation have been filed with the Philippine SEC and PLDT has been issued Philippine SEC Reg. No. 55. The Second Article of PLDT's Articles of Incorporation provides that the purposes for which PLDT was formed are to install, maintain, and operate any and all kinds of equipment for communications; to install, maintain, operate or lease telephone lines and systems, and to purchase, sell and deal in all kinds of products which may be combined with the building, installing and operation of those systems and lines and in general, to engage in any and all acts and business which may be necessary or convenient, in the furtherance of such lines of

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communication and business.

Directors

PLDT's Amended By-Laws provide that the board of directors shall consist of thirteen members, or such number of members provided in the Articles of Incorporation of the Corporation, as amended from time to time, each of whom must hold at least one share of the common stock of PLDT in his own name and possess the minimum qualifications and have none of the disqualifications provided in the By-Laws. There are no provisions in PLDT's Amended Articles of Incorporation or Amended By-Laws with respect to: (a) a director's power to vote on a proposal, arrangement or contract in which the director is materially interested; (b) the directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body; (c) borrowing powers exercisable by the directors and how such borrowing powers can be varied; or (d) retirement or non-retirement of directors under an age limit requirement.

Description of PLDT Capital Stock

Authorized Capital Stock

The authorized capital stock of PLDT is Php9,395 million divided into two classes consisting of 234 million shares of Common Capital Stock with a par value of Php5 per share (the Common Stock) and 822.5 million shares of serial Preferred Stock with a par value of Php10 per share (the Preferred Stock).

Common Stock

Set out below is a statement of the dividend, voting, pre-emption and other rights of the holders of Common Stock as set out in the Articles of Incorporation and/or By-Laws of PLDT:

- (a) After the requirements with respect to preferential dividends on the serial Preferred Stock shall have been met and after PLDT shall have complied with all the requirements, if any, with respect to the setting aside of sums as purchase, retirement or sinking funds, the holders of the Common Stock shall be entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available therefore.
- (b) After distribution in full of the preferential amounts to be distributed to the holders of serial Preferred Stock in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of PLDT, the holders of Common Stock shall be entitled to receive all the remaining assets of PLDT of whatever kind available for distribution to stockholders ratably in proportion to the number of Common Stock held by them, respectively.
- (c) Except as may be otherwise required by law, or by the Articles of Incorporation of PLDT, each holder of Common Stock shall have one vote in respect of each share of such stock held by him on all matters to be voted upon by the stockholders, and the holders of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. At every election of directors, each holder of Common Stock is entitled to vote such shares of Common Stock held by him and he may vote such number of shares for as many persons as there are directors to be elected, or to cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or to distribute such votes on the same principle among as many candidates as he shall think fit.

In addition to the foregoing rights, the Corporation Code provides for other stockholders' rights generally, which include:

- (a) Appraisal right or the right of a dissenting stockholder to demand payment of the fair value of his shares of stock in the following instances: (i) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets of the corporation; (iii) in case of merger or consolidation; and (iv) in case of investment of funds of the corporation in any other corporation or business or for any purpose other than the primary purpose for which it was organized, except where the investment by the

corporation is reasonably necessary to

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accomplish its primary purpose as stated in its articles of incorporation.

- (b) The right to approve certain corporate acts, such as: (i) election of directors; (ii) removal of directors; (iii) extension or shortening of the corporate term; (iv) increase or decrease of capital stock, and incurring, creating or increasing bonded indebtedness; (v) sale or other disposition of all or substantially all of the corporate assets; (vi) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized except where the investment is reasonably necessary to accomplish its primary purpose as stated in the corporation's articles of incorporation; (vii) declaration of stock dividend; (viii) entering into a management contract with another corporation; (ix) plan of merger or consolidation; and (x) voluntary dissolution of the corporation by shortening the corporate term.
- (c) The right to inspect at reasonable hours on business days the records of all business transactions of the corporation and the minutes of any meeting; however, the stockholders' right to inspect corporate records and books is not an absolute right so that the corporation may deny said right on the basis of impropriety of the purpose or motive of the stockholder.
- (d) The right to be furnished the most recent financial statements of the corporation, within ten (10) days from receipt by the corporation of a written request from a stockholder. The same right exists at the annual meeting of stockholders at which the board of directors must present to the stockholders a financial report of the operations of the corporation for the preceding year which shall include financial statements duly signed and certified by an independent certified public accountant.

Restrictions on Foreign Ownership

The Constitution of the Republic of the Philippines (Section 11, Article XII) states that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

While the Articles of Incorporation and By-Laws of PLDT do not contain any specific restriction on the sale, assignment or transfer of shares that would violate the aforesaid ownership requirement, the Articles of Incorporation of PLDT provide that the board of directors shall have full power and authority to authorize (whether by adoption of amendments to the By-Laws of PLDT or of resolutions, the promulgation of rules or regulations or otherwise) the taking by said corporation of all such actions as the board of directors may deem necessary or appropriate to ensure compliance by said corporation with any applicable provision of the Constitution of the Republic of the Philippines or any other applicable law, treaty, rule or regulation relating to the ownership of securities of said corporation by citizens of the Philippines, aliens or other persons or group of persons.

Meetings

The Corporation Code requires corporations to hold an annual meeting of stockholders and to send notice thereof to stockholders. Under PLDT's By-Laws, the annual meeting of stockholders shall be held at the principal office of the corporation, or at such other place designated by the board of directors in the city or municipality where the principal office of the corporation is located, on the second Tuesday in June of each year. In the annual meeting, the board of directors shall be elected and such other business may be transacted as shall come before the meeting. At least fifteen (15) business days written or printed notice of the date, time and place of holding every annual stockholders' meeting shall be given by the Secretary or by the Assistant Secretary by personal delivery or by mail to each stockholder at his or her last known place of residence or business. Special meetings of stockholders may be called at any time by the Chairman of the Board or three (3) of the Directors or by any number of stockholders representing two-thirds (2/3) of the subscribed capital stock. Notice in writing of such meeting, stating the date, time and place thereof and the purpose or purposes for which such meeting is called, shall be given to each stockholder by the Secretary or Assistant Secretary or, in case of his absence, inability, refusal or neglect to act, then by the President, Directors or stockholders calling the said meeting, by personal delivery or by mail to each stockholder at his or her last known place of residence, at least fifteen (15) business days before the date fixed for the meeting and the statement of service by such

delivery or mailing shall be entered upon the minutes of meeting and the said minutes as certified correct by the secretary of the meeting and attested by the chairman of the meeting shall be conclusive on the question of service.

The By-Laws of PLDT provide that each share of common stock which has voting rights on any matter under consideration may be represented at any meeting of stockholders by the holder thereof or by his attorney duly

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authorized by proxy executed in writing on forms prescribed by the board of directors which shall be furnished to a stockholder upon his request. Unless otherwise provided in the proxy, it shall be valid only for the meeting in respect of which such proxy was issued. Proxies must be filed with the Secretary, Assistant Secretary or transfer agent of PLDT at least seven (7) days before the day of the meeting. Any proxy filed with the Secretary, Assistant Secretary or transfer agent of the corporation may be revoked by the stockholder concerned either in an instrument in writing duly presented to the Secretary, Assistant Secretary or transfer agent of the corporation at least three (3) days before the day of the meeting or by his personal presence at the meeting. Validation of proxies shall be done at least five (5) days before the day of the meeting by the Secretary or by a special committee of inspectors composed of the Secretary, Assistant Secretary and a representative of the transfer agent of PLDT. The decision of the Secretary or the special committee of inspectors, as the case may be, on the validity of proxies shall be final and binding until and unless set aside by a court of competent jurisdiction. As provided in the Corporation Code, unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended and no proxy shall be valid and effective for a period longer than five (5) years at any one time.

The By-Laws of PLDT also provide that at any meeting of the stockholders, persons representing, in person or by proxy, a majority of the shares issued and outstanding and entitled to vote at said meeting shall constitute a quorum for the transaction of any business, except as otherwise provided by law, and except that a lesser number may adjourn the meeting.

Issues of Shares

The board of directors of PLDT has the power to authorize without seeking shareholders approval the issue and sale of authorized but unissued shares of Common Stock of said corporation for such consideration as it shall determine, provided that such consideration shall not be less than the par value of such shares and, provided further, that such issue and sale is not otherwise prohibited under applicable laws.

Under the SRC (R.A. No. 8799), no securities except of a class exempt under the provisions thereof or unless sold in any transaction exempt under any of the provisions thereof, shall be sold or offered for sale or distribution to the public unless such securities shall have been registered and permitted to be sold pursuant to the SRC.

Transfer of Shares

The shares of Common Stock may be transferred by delivery of certificate(s) endorsed by the shareholder named in the certificate or his duly authorized attorney or representative. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the stock and transfer books of PLDT maintained by

Hong Kong and Shanghai Banking Corporation, the stock transfer agent of PLDT for its Common Stock.

Philippine law does not require transfers of Common Stock to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on the PSE. All transfers of shares of Common Stock on the PSE must be effected through a licensed broker in the Philippines.

Share Certificates

Certificates representing fully paid shares of Common Stock are issued in such denominations as stockholders may request, except that certificates will not be issued for any fractional part of a share or any undivided interest in any share.

Dividends

Under the Corporation Code, the board of directors may declare dividends on the Common Stock out of the unrestricted retained earnings which may be payable in cash, in property or in stock to all stockholders on the basis of outstanding shares held by them. The declaration of stock dividends requires the approval of the stockholders of PLDT representing not less than two-thirds of the outstanding capital stock of PLDT. If a stock dividend would require an increase in the authorized capital stock, Philippine SEC approval would be required. Common Stock issued as stock dividends should be registered with and licensed by the Philippine SEC and listed on the PSE.

The Corporation Code requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general

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requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite corporate expansion projects or programs approved by the board of directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances relevant to the corporation, such as when there is a need for special reserve for probable contingencies.

See Item 5. Liquidity and Capital Resources Financing Activities Financing Requirements and Item 3. Key Information Dividends Declared and Key Information Dividends Paid .

Preferred Stock

Preferred Stock may be issued from time to time in one or more series as the board of directors may determine. The board of directors is authorized to establish and designate the title and number of shares of each series and to fix the terms thereof, including dividend rate, redemption and sinking fund provisions, conversion rights and the amount to be received upon liquidation, provided that the amounts payable upon redemption or liquidation may not be more than 110%, nor less than 100%, of par value, plus in each such case accrued and unpaid dividends. Except as otherwise provided by law, the holders of Preferred Stock are not entitled to vote for the election of directors or for any other purpose; provided, however, that PLDT may not change the rights of the holders of any series of Preferred Stock in any manner prejudicial to the holders thereof without the affirmative vote of the holders of a majority of the shares of such series. No such approval is needed to increase the number of shares of Preferred Stock (up to the number from time to time authorized by the Articles) or to authorize classes of shares ranking on a parity with the Preferred Stock.

Issued and Outstanding Preferred Stock

The series of Preferred Stock and the number of shares issued and outstanding under each series as at February 28, 2011 and December 31, 2010 are as follows:

Series	No. of Shares	
	February 28, 2011	December 31, 2010
Series A to HH 10% Cumulative Convertible	405,912,897	405,887,387
Series IV Cumulative Non-convertible Redeemable	36,000,000*	36,000,000*

* Total subscribed shares is 300 million with a total subscription price of Php3 billion, out of which amount Php360 million has been paid.

The Series A to II 10% Cumulative Convertible Preferred Stock are entitled to receive cumulative dividends at the rate of 10% per annum; redeemable at the option of PLDT, at par value plus accrued dividends, five years after the year of issuance; convertible to shares of Common Stock a year after the year of share issuance, at a price equivalent to 10% below the average market price of the Common Stock at the PSE over a period of 30 consecutive trading days before the conversion date; and entitled to be paid an amount equal to the par value of the shares plus accrued and unpaid dividends thereon to the date fixed for such payment in the event of a voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the affairs of the corporation.

The Series IV Cumulative Non-convertible Redeemable Preferred Stock are entitled to receive cumulative dividends at the rate of 13.5% per annum based on the paid-up subscription price. It is redeemable at the option of PLDT one year at any time after subscription at an amount equal to the par value of such shares so redeemed or if such shares are not yet fully paid, the actual amount paid, plus accrued and unpaid dividends thereon; and in the event of a voluntary or involuntary liquidation, dissolution or winding up of affairs of PLDT, shall be entitled to be paid an amount equal to the par value of such shares or if such shares are not yet fully paid, the actual amount paid, plus an amount equal to the dividends accrued thereon to the date fixed for payment. The outstanding shares of Series IV Cumulative Non-convertible Redeemable Preferred Stock have not been fully paid.

Change in Control

Article V, Section 1 of PLDT's Amended By-Laws may have the effect of preventing a change in control of PLDT. This section provides that any person who is engaged in any business that competes with or is antagonistic to that of

PLDT or its subsidiaries is ineligible for nomination or election to the board of directors.

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Under the Cooperation Agreement, each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, it shall cast its vote as a PLDT shareholder in support of any resolution proposed by the PLDT board of directors for the purpose of safeguarding PLDT from any Hostile Transferee (as defined in the Cooperation Agreement). See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

Material Contracts

Other than the contracts described in Item 4. Information on the Company Development Activities (2008-2010) and Item 7. Major Shareholders and Related Party Transactions, we have not entered into any material contract that are not in the ordinary course of business within the two years preceding the date of this annual report.

Exchange Controls and Other Limitations Affecting Securities Holders

In Circular No. 1389 dated November 10, 1993, as amended by Circular No. 224 dated January 26, 2000, of the BSP, foreign investments in the shares of stock of Philippine companies listed in the PSE may be registered either with the BSP or with an investor's designated custodian bank. The foreign investments in listed shares of stock, which are duly registered with the BSP or with a custodian bank duly designated by the foreign investor, are entitled to full and immediate capital repatriation and dividend and interest remittance privileges. Without the need to obtain prior BSP approval, commercial banks are authorized to sell and to remit the equivalent foreign exchange (at the exchange rate prevailing at the time of actual remittance) representing sales and divestment proceeds or dividends of a duly registered foreign equity investment upon presentation of a BSP Registration Document (BSRD) together with other supporting documents. The BSRD is issued by the BSP or the custodian bank upon registration of the foreign investment and serves as the authority to repatriate such divestment and sales proceeds or remittance of cash dividends. Effective April 3, 2000, only pre-numbered BSRD forms, printed on BSP security paper may be used and issued as proof of registration of foreign investments in accordance with existing BSP rules. The remitting commercial bank must submit to the BSP a statement of remittance together with the supporting documents within two banking days from date of actual remittance. Foreign investments not duly registered with the BSP or with the investor's designated custodian bank are not entitled to repatriation and remittance privileges through the banking system except capital repatriation or dividend remittance of direct foreign equity investments made prior to March 15, 1973 when BSP registration was not yet required. The BSP should be notified of the transfer of sale of foreign investments in equity or securities already registered with the BSP, in order that the registration of the foreign investment may be transferred in the name of the transferee or purchaser.

Cash dividends on PLDT's stock are paid in Philippine peso, except dividends on the Series VI Convertible Preferred Stock, which were paid in U.S. dollars. PLDT's Transfer Agent for its common stock, The Hong Kong and Shanghai Banking Corporation, which also acts as dividend paying agent, converts and remits in U.S. dollars, at the prevailing exchange rate, cash dividends due to all common shareholders residing outside the Philippines. Under the above-mentioned regulations, PLDT has been able to remit the cash dividends due to shareholders residing outside the Philippines. As at December 31, 2010, approximately 86% of PLDT's outstanding shares of common and preferred stock were held by Philippine persons. For certain restrictions on the declaration and payment of dividends by PLDT, see Note 19 Equity and Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in Item 18.

Principal of and interest on PLDT's 11.375% Notes due 2012 and 8.35% Notes due 2017 are payable in U.S. dollars which may be paid through the local banking system either pursuant to the registration of such Notes with the BSP or otherwise pursuant to specific BSP approval of such payment. Such principal and interest may also be paid utilizing PLDT's own dollar resources without necessity of BSP approval. The BSP, with the approval of the President of the Philippines, may, however, restrict the availability of foreign exchange during an exchange crisis, when an exchange crisis is imminent, or in times of national emergency.

Table of Contents**Taxation**

The following is a description of the material Philippine and United States federal income tax consequences to United States Holders (as defined below) of owning shares of Common Stock and ADSs. It applies to you only if you hold your Common Stock or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of PLDT's voting stock, a person that holds Common Stock or ADSs as part of a straddle or a hedging or conversion transaction, or a person whose functional currency is not the U.S. dollar.

This section is based on the United States Internal Revenue Code of 1986, as amended (the U.S. Tax Code), its legislative history, existing and proposed regulations, published rulings and court decisions, and the laws of the Philippines including the Philippine National Internal Revenue Code of 1997 (the Philippine Tax Code) all as currently in effect, as well as on the Convention Between the Philippines and the United States (the Philippines-United States Tax Treaty). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part on the representations of the Depository and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed according to its terms.

You are a United States Holder if you are a beneficial owner of Common Stock or ADSs and you are a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation and Philippine income taxation, estate and donor's taxation, stock transaction taxation and documentary stamp taxes.

*Philippine Taxation**Taxes on Exchange of ADSs for Common Stock*

Philippine capital gains or stock transaction taxes and documentary stamp taxes may be payable upon the transfer of shares of Common Stock to a holder of ADRs or to a holder of GDRs. See Capital Gains Tax and Stock Transaction Tax and Documentary Stamp Taxes.

Taxation of Dividends

Under the Philippine Tax Code, dividends paid by a Philippine corporation to citizens of the Philippines and resident aliens in the Philippines are subject to a final withholding tax of 10% while those paid to non-resident aliens engaged in trade or business within the Philippines are subject to a final withholding tax of 20%. Dividends paid to non-resident aliens not engaged in trade or business within the Philippines are subject to a final withholding tax of 25%. Dividends paid by a Philippine corporation to other Philippine corporations or to resident non-Philippine corporations are not subject to tax. Dividends paid to non-resident non-Philippine corporations not engaged in a trade or business in the Philippines by Philippine corporations shall be subject to a final withholding tax of 15%, subject to the condition that the country in which the non-resident non-Philippine corporation is domiciled either: (i) allows a credit against the tax due from the non-resident non-Philippine corporation taxes deemed to have been paid in the Philippines equivalent to 15% effective January 1, 2009 (which represents the difference between the regular income tax on non-resident non-Philippine corporations of 30% effective January 1, 2009 and the 15% tax on dividends) (this condition is not satisfied in the case of corporations domiciled in the United States if such corporations own less than 10% of the voting stock of PLDT) or (ii) imposes no income taxes on dividends received by such non-resident non-Philippine corporations from Philippine corporations (this condition is not satisfied in the case of corporations domiciled in the United States). If neither of the foregoing conditions are met, the dividends paid to the non-resident non-Philippine corporation shall be subject to the regular income tax (in the form of final withholding tax) at the rate of 30% effective January 1, 2009. Under rulings issued by Philippine tax authorities, Hong Kong is viewed as falling within clause (ii) and, thus, companies that are organized in Hong Kong that are not engaged in trade or business in the Philippines may be entitled to the benefit of the 15% rate. Such rulings, however, were based upon the laws of Hong Kong as in effect at the time such rulings were issued, and any subsequent changes in the relevant laws of Hong Kong may affect the validity of such rulings. PLDT reserves the right to change the rate at which it makes

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payments of withholding tax whenever it deems it appropriate under applicable law.

If the holder of Common Stock is a non-resident foreign partnership, which is treated as a corporation for Philippine tax purposes, dividends on the Common Stock should be subject to a final withholding tax of 30% effective January 1, 2009. Cede & Co., the partnership nominee of Depository Trust Company (DTC), should qualify as a non-resident foreign partnership that would be treated as a corporation for Philippine tax purposes.

In certain circumstances where the holder holds Common Stock, a tax treaty rate may be applicable with respect to the Philippine withholding tax. For instance, holders under such circumstances and as to which the Philippines-United States Tax Treaty would be applicable would be eligible for a treaty rate of 25% (or 20% in certain instances). The 20% treaty rate is generally not applicable in the case of non-resident non-Philippine corporations domiciled in the United States which own less than 10% of the voting stock of PLDT. Holders are required, however, to establish to the Philippine taxing authorities their eligibility for such treaty rate. Philippine tax authorities have prescribed, through an administrative issuance, procedures for availment of tax treaty relief. Provided that it complies with the procedures for availment of tax treaty relief, PLDT intends to pay withholding tax at the reduced treaty rate in respect of shares the registered holder of which is Cede & Co., on the basis that Cede & Co. is a resident of the United States for purposes of the Philippines-United States Tax Treaty. PLDT reserves the right to change the rate at which it makes payments of withholding tax whenever it deems it appropriate under applicable law.

Capital Gains Tax and Stock Transaction Tax

The Philippine Tax Code provides that gain from the sale of shares of stock in a Philippine corporation shall be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. Subject to applicable tax treaty rates, the rate of tax on such gain, where the share is not disposed of through the PSE, is a final tax (i.e., capital gains tax) of 5% for gains not exceeding Php100,000 and 10% for gains in excess of that amount. The rate is the same for both non-resident individuals and non-resident non-Philippine corporations. While this tax is not collected through withholding, the Philippine Tax Code prohibits a sale or transfer of shares of stock from being recorded in the Stock and Transfer Books of the corporation unless the Philippine Commissioner of Internal Revenue certifies that the tax has been paid or certain other conditions are met.

The sale of shares which are listed in and sold through the PSE are subject to the stock transaction tax imposed at the rate of 1/2 of 1% of the gross selling price. This tax is required to be collected and paid to the government by the selling stockbroker on behalf of his client. In a letter from the BIR dated December 28, 2010 and addressed to the Securities and Exchange Commission, the BIR sets out the policy that, for tax purposes: (i) listed companies should continually maintain, if not surpass, their initial public ownership requirement in order to continually enjoy the preferential tax rate of 1/2 of 1% of the gross selling price of gross value on money arising from the disposal by the stockholders of their listed shares through the PSE; and (ii) failure of listed companies to do so exposes the stockholders selling their shares to the 5%/10% capital gains tax as these companies are no longer compliant with their public ownership status and will, thus, not be considered publicly-listed companies for taxation purposes. While such letter from the BIR provides that this new policy will be implemented beginning January 1, 2011, the BIR has not yet issued guidelines for its implementation.

Sales of shares other than through a Philippine stock exchange will be subject to Philippine capital gains tax in the manner described above.

Under the Philippines-United States Tax Treaty, gains derived by a United States resident from the sale of shares of stock of a Philippine corporation will not be subject to capital gains tax (i.e., where the share is not disposed of through the PSE), unless the shares are those of a corporation of which over 50% of the assets (in terms of value) consist of real property interests located in the Philippines. PLDT does not believe that it currently is such a corporation.

Documentary Stamp Taxes

The Philippines imposes a documentary stamp tax upon transfers of shares of stock issued by a Philippine corporation at a rate of Php0.75 on each Php200, or fractional part thereof, of the par value of the shares. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred, when the obligation or right arises from Philippine sources or the property is situated in the Philippines. However, the sale, barter, transfer or exchange of shares of stock of a Philippine Corporation which is listed and traded through the

facilities of the Philippine Stock Exchange is exempt from the document stamp tax.

Table of Contents*Estate and Donor's Taxes*

Shares of stock issued by a corporation organized or constituted in accordance with Philippine law are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes. The transfer of shares of stock by a deceased individual to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over Php200,000. Individual and corporate shareholders, whether or not citizens or residents of the Philippines, who transfer the Equity Securities by way of gift or donation will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15%, if the net gifts made during the calendar year exceed Php100,000. The rate of tax with respect to net gifts made to a stranger, who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship of the donor, is a flat rate of 30%. Estate and gift taxes will not be collected in respect of intangible personal property such as the Equity Securities:

if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or

if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Shares of stock of a deceased shareholder or shares that have been donated may not be transferred on the books of the corporation without a certificate from the Philippine Commissioner of Internal Revenue that the applicable estate or donor's taxes have been paid. In the case of ADRs, however, there is no corresponding requirement, unless a transfer of the ADRs would also entail a change in the registration of the underlying shares.

United States Federal Taxation

In general, taking into account the earlier assumptions that each obligation of the Deposit Agreement and any related agreement will be performed according to its terms, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares of Common Stock for ADRs, and ADRs for shares of Common Stock, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a United States Holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a non-corporate United States Holder, dividends paid to you in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that, in the case of Common Stock or ADSs you hold the Common Stock or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Dividends we pay with respect to the Common Stock or ADSs generally will be qualified dividend income.

You must include any Philippine tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of Common Stock, or the Depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a United States Holder will be the U.S. dollar value of the Philippine peso payments made, determined at the spot Philippine peso/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within

the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated
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earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Common Stock or ADSs and thereafter as capital gain.

Subject to certain limitations, the Philippine tax withheld in accordance with the Philippines-United States Tax Treaty and paid over to the Philippines will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States. Dividends will, depending on your circumstances, be either passive or general income for purposes of computing the foreign tax credit allowable to you.

Sale or Other Disposition of Equity Securities

Subject to the PFIC rules discussed below, a United States Holder will recognize capital gain or loss upon the sale of Common Stock or ADSs in an amount equal to the difference between such United States Holder's basis in the Common Stock or ADSs and the amount realized upon the sale. Such gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or retirement, the Common Stock or ADSs have been held for more than one year. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Generally, any such gain or loss will be treated as realized income or loss from sources within the United States for foreign tax credit limitation purposes. United States Holders may not be eligible to credit against their United States federal income tax liability amounts paid in respect of the Philippine stock transaction tax. See Philippine Taxation Capital Gains Tax and Stock Transaction Tax.

The U.S. Tax Code does not authorize a comparable credit for foreign gift or donor's taxes such as those imposed by the Philippines. See Philippine Taxation Estate and Donor's Taxes.

Passive Foreign Investment Company Rules

We believe that the Common Stock or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, unless the Common Stock or ADSs are marketable stock and a United States Holder elects to be taxed annually on a mark-to-market basis with respect to the Common Stock or ADSs, gain realized on the sale or other disposition of your Common Stock or ADSs would in general not be treated as capital gain. Instead, if you are a United States Holder, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Common Stock or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Documents on Display

We are subject to the informational requirements of the Exchange Act, and file reports and other information with the Commission, as required by this Act. Reports and other information filed by us with the Commission may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Copies of these materials may be obtained by mail from the public reference section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. These reports and other information may also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005, on which the ADSs representing our Common Stock are listed.

Item 11. Quantitative and Qualitative Disclosures About Market Risks

The main risks arising from our financial instruments are liquidity risk, foreign currency exchange risk, interest rate risk and credit risk. The importance of managing those risks has significantly increased in light of the considerable change and continuing volatility in both the Philippine and international financial markets. Our Board of Directors reviews and approves policies for managing each of these risks. Our policies for managing these risks are summarized below. We also monitor the market price risk arising from all financial instruments.

Table of Contents***Liquidity Risk***

We manage our liquidity profile to be able to finance our operations and capital expenditures, service our maturing debts and meet our other financial obligations. To cover our financing requirements, we use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flows, including our loan maturity profiles, and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These activities may include bank loans, export credit agency-guaranteed facilities, debt capital and equity market issues.

Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. We also allocate a portion of our cash in longer tenor investments such as fixed income securities issued or guaranteed by the Republic of the Philippines, and Philippine banks and corporates, managed funds and other structured products linked to the Republic of the Philippines. We regularly evaluate available financial products and monitor market conditions for opportunities to enhance yields at acceptable risk levels. Our investments are also subject to certain restrictions contained in our debt covenants. Our funding arrangements are designed to keep an appropriate balance between equity and debt and to provide financing flexibility while enhancing our businesses.

We have letters of credit amounting to Php1,145 million as at December 31, 2010 and certain financial instruments that are allocated to meet our short-term liquidity needs. These financial instruments are cash and cash equivalents, and short-term investments amounting to Php36,678 million and Php669 million, respectively, as at December 31, 2010. See Note 15 Cash and Cash Equivalents to the accompanying consolidated financial statements in Item 18. Details on our letters of credit and a summary of the maturity profile of our financial liabilities as at December 31, 2010 and 2009 based on contractual undiscounted payments is set out in Note 26 Contractual Obligations and Commercial Commitments to the accompanying consolidated financial statements in Item 18.

Foreign Currency Exchange Risk

The revaluation of our foreign currency-denominated financial assets and liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of the reporting period. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt. While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars. As such, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase in Philippine peso terms both the principal amount of our foreign currency-denominated debts and the related interest expense, our foreign currency-denominated capital expenditures and operating expenses as well as our U.S. dollar-linked and U.S. dollar-denominated revenues. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks and to stabilize our cash flows in order to improve investment and cash flow planning, we enter into forward foreign exchange contracts, currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. We use forward foreign exchange purchase contracts, currency swap contracts and foreign currency option contracts to manage the foreign currency risks associated with our foreign currency-denominated loans. We also enter into forward foreign exchange sale contracts to manage foreign currency risks associated with our U.S. dollar-linked and U.S. dollar-denominated revenues. In order to manage the hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of foreign currency option contracts, and fixed to floating coupon only swap contracts. We accounted for these instruments as either cash flow hedges, wherein changes in the fair value are recognized as cumulative translation adjustments in other comprehensive income until the hedged transaction affects our consolidated income statement or when the hedging instrument expires, or transactions not designated as hedges, wherein changes in the fair value are recognized directly as income or expense for the year.

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The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2010 and 2009:

	2010		2009	
	U.S. Dollar	Php ⁽¹⁾ (in millions)	U.S. Dollar	Php ⁽²⁾
Noncurrent Financial Assets				
Note receivable	2	84	2	81
Derivative financial assets	4	178		
Advances and refundable deposits	1	38		7
Total noncurrent financial assets	7	300	2	88
Current Financial Assets				
Cash and cash equivalents	138	6,050	140	6,496
Short-term investments	15	652	47	2,164
Trade and other receivables net	214	9,361	206	9,573
Derivative financial assets		5		6
Total current financial assets	367	16,068	393	18,239
Total Financial Assets	374	16,368	395	18,327
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities net of current portion	782	34,244	837	38,871
Derivative financial liabilities	82	3,604	59	2,751
Total noncurrent financial liabilities	864	37,848	896	41,622
Current Financial Liabilities				
Accounts payable	169	7,415	155	7,180
Accrued expenses and other current liabilities	143	6,267	95	4,409
Current portion of interest-bearing financial liabilities	103	4,537	155	7,220
Total current financial liabilities	415	18,219	405	18,809
Total Financial Liabilities	1,279	56,067	1,301	60,431

⁽¹⁾ The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php43.81 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2010.

⁽²⁾ The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.43 to US\$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2009.

As at March 29, 2011, the Philippine peso-dollar exchange rate was Php43.53 to US\$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities as at December 31, 2010 would have decreased in Philippine peso terms by Php253 million.

Approximately 43% and 46% of our total consolidated debts (net of consolidated debt discount) was denominated in U.S. dollars as at December 31, 2010 and 2009, respectively. Consolidated foreign currency-denominated debt decreased to Php38,414 million as at December 31, 2010 from Php45,633 million as at December 31, 2009. See Note 20 Interest-bearing Financial Liabilities to the accompanying consolidated financial statements in Item 18 for further discussion. The aggregate notional amount of PLDT's outstanding long-term principal only currency swap contracts were US\$262 million and US\$391 million as at December 31, 2010 and 2009, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 30% (or 23%, net of our consolidated U.S. dollar cash balances) and 28% (or 19%, net of our consolidated U.S. dollar cash balances) as at December 31, 2010 and 2009, respectively.

Approximately 26% of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars for the year ended December 31, 2010 as compared with approximately 28% for each of the years ended December 31, 2009 and 2008. In this respect, the appreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar decreased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 5.64% against the U.S. dollar to Php43.81 to US\$1.00 as at December 31, 2010 from Php46.43 to US\$1.00 as at December 31, 2009. As at December 31, 2009, the Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US\$1.00 from Php47.65 to US\$1.00 as at December 31, 2008. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency financial assets and liabilities, we recognized net consolidated foreign exchange gains of Php1,807 million and Php909 million in 2010 and 2009, respectively, and net consolidated foreign exchange losses of Php6,170 million in 2008. See Note 4 Operating Segment Information to the accompanying consolidated financial statements in Item 18 for further discussion.

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Management conducted a survey among our banks to determine the outlook of the Philippine peso-dollar exchange rate until our next reporting date of December 31, 2011. Our outlook is that the Philippine peso-dollar exchange rate may weaken/strengthen by 5.27% as compared to the exchange rate of Php43.81 to US\$1.00 as at December 31, 2010. If the Philippine peso-dollar exchange rate had weakened/strengthened by 5.27% as at December 31, 2010, with all other variables held constant, profit after tax for the year end 2010 would have been approximately Php1,099 million higher/lower and our consolidated stockholders' equity as at year end 2010 would have been approximately Php1,089 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments. If the Philippine peso-dollar exchange rate had weakened/strengthened by approximately 4% as at December 31, 2009, with all other variables held constant, profit after tax for the year would have been approximately Php877 million higher/lower and our consolidated stockholders' equity as at year end 2009 would have been approximately Php849 million higher/lower, mainly as a result of consolidated foreign exchange gains and losses on translation of U.S. dollar-denominated net assets/liabilities and mark-to-market valuation of derivative financial instruments.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations and short-term borrowings with floating interest rates.

Our policy is to manage interest cost through a mix of fixed and variable rate debts. We evaluate the fixed to floating ratio of our loans in line with movements of relevant interest rates in the financial markets. Based on our assessment, new financing will be priced either on a fixed or floating rate basis. On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risk associated with our liabilities and not for trading purposes.

The following tables set out the carrying amounts, by maturity, of our financial instruments that are expected to have exposure on interest rate risk as at December 31, 2010 and 2009. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2010

	In U.S. Dollar					Total	Discount/ Debt Issuance Cost In Php	Carrying Value In Php (in millions)	Fair Value In U.S. Dollar	Fair Value In Php
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years					
Assets:										
<i>Cash in Bank</i>										
U.S. Dollar	11					11	474	474	11	474
Interest rate	0.0025%									
	to									
	0.7840%									
Philippine										
Peso	31					31	1,362	1,362	31	1,362
Interest rate	0.0625%									
	to									
	2.9000%									
	3					3	118	118	3	118

Other Currencies								
Interest rate	0.0100%							
	to							
	2.4000%							
<i>Temporary Cash</i>								
<i>Investments</i>								
U.S. Dollar	110		110	4,813	4,813	110	4,813	
Interest rate	0.1000%							
	to							
	1.7000%							
Philippine Peso	661		661	28,959	28,959	661	28,959	
Interest rate	1.0000%							
	to							
	4.8100%							
<i>Short-term Investments</i>								
U.S. Dollar	15		15	652	652	15	652	
Interest rate	1.9000%							
	to							
	10.672%							
Philippine Peso				17	17		17	
Interest rate	3.2500%							
<i>Investment in Debt Securities</i>								
Philippine Peso		8	3	11	484	11	502	
Interest rate		6.8750%	7.0000%					
	831	8	3	842	36,879	842	36,897	

Liabilities:

*Long-term
Debt*

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	Below 1 year	In U.S. Dollar			Over 5 years	Total	In Php	Discount/Debt Issuance Carrying Value		Fair Value In U.S.	
		1-2 years	2-3 years	3-5 years				Cost In Php	Value In Php	Dollar	In Php
<i>Fixed Rate</i>											
U.S. Dollar Notes Interest rate		146			234	380	16,650	200	16,450	440	19,274
		11.3750%			8.3500%						
U.S. Dollar Fixed Loans Interest rate	9	29	15	295		348	15,264	2,586	12,678	276	12,120
		2.9900% to 4.7000%	2.9900% to 3.7900%	2.2500% to 2.9900%							
Philippine Peso Interest rate	68	146	121	339	195	869	38,066	74	37,992	961	42,091
	6.0323% to 8.7792%	5.6250% to 8.4346%	6.5000% to 7.1038%	6.5000% to 9.1038%							
<i>Variable Rate</i>											
U.S. Dollar Interest rate	6	148	45	15		214	9,357	71	9,286	212	9,286
	US\$ LIBOR + 0.8150%	US\$ Swap rate + LIBOR + 2.7900%; 0.4200% to 1.8500%	US\$ Swap rate + LIBOR + 2.7900%; 0.4200% to 1.8500%	US\$ Swap rate + LIBOR + 2.7900%; 0.4200% to 1.8500%							
Philippine Peso Interest rate	58	150	74	20		302	13,253	13	13,240	302	13,240
	PDST-F + 0.3000% to 1.2500%	PDST-F + 0.3000% to 1.3750% AUB s prime rate	PDST-F + 0.3000% to 1.3000%	PDST-F + 0.3000%							

141 619 255 669 429 2,113 92,590 2,944 89,646 2,191 96,011

As at December 31, 2009

	Below 1 year	1-2 years	In U.S. Dollar			Total	In Php	Discount/ Debt	Carrying Value In Php	Fair Value In U.S. Dollar	Fair Value In Php
			2-3 years	3-5 years	Over 5 years			Cost In Php (in millions)			
Assets:											
<i>Cash in Bank</i>											
U.S. Dollar	11					11	540	540	11	540	
Interest rate	0.0025%										
	to										
	0.88%										
Philippine Peso	36					36	1,673	1,673	36	1,673	
Interest rate	0.625%										
	to										
	2.90%										
Other Currencies	1					1	31	31	1	31	
Interest rate	0.0014										
	to										
	2.40%										
<i>Temporary Cash Investments</i>											
U.S. Dollar	384					384	17,870	17,870	384	17,870	
Interest rate	0.50%										
	to										
	1.75%										
Philippine Peso	369					369	17,149	17,149	369	17,149	
Interest rate	1.25%										
	to										
	5.50%										
<i>Short-term Investments</i>											
U.S. Dollar	46					46	2,132	2,132	46	2,132	
Interest rate	4.25%										
	to										
	7.006%										
Philippine Peso	36					36	1,692	1,692	36	1,692	
Interest rate	4.40%										

*Investment
in Debt*

Securities

Philippine Peso			10		10	462		462	10	474
Interest rate			6.92%							
	883		10		893	41,549		41,549	893	41,561

Liabilities:

*Long-term
Debt*

Fixed Rate

U.S. Dollar Notes			146		245	391	18,161	285	17,876	449	20,837
Interest rate			11.375%		8.350%						
U.S. Dollar Fixed Loans	14	27	5	285		331	15,397	3,338	12,059	229	10,654
Interest rate	4.515%	3.79%	3.79%	2.25%							
		to		to							
		4.70%		3.79%							
Philippine Peso		63	126	236	305	730	33,858	84	33,774	744	34,535
Interest rate	6.0323%	5.625% to	6.125%	6.50% to							
	to	8.4346%	to	9.1038%							
	8.4346%		9.1038%								

*Variable
Rate*

U.S. Dollar Interest rate	41	160	74	60		335	15,543	124	15,419	332	15,419
		US\$		US\$							
		LIBOR		LIBOR							
		+		+							
		0.42%		0.42%							
		to		to							
		US\$ 1.85%;		1.85%;							
		LIBOR swap		LIBOR swap							
		+ 0.05% rate +		+ 1.85% swap rate +							
		to 2.5%		to 2.79%							
Philippine Peso		185	81	107		373	17,349	27	17,322	373	17,322

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	In U.S. Dollar					Over 5 years	Total	Discount/ Debt Issuance Carrying		Fair Value In U.S.	
	Below 1 year	1-2 years	2-3 years	3-5 years				Cost	Value	Dollar	In Php
Interest rate		PDST-FP + 0.75% to 1.5%; AUB prime rate	DST-F + 1.0% to 1.5%; AUB prime rate	F + 1.0% to 1.50%				In Php (in millions)	In Php	Dollar	In Php
<i>Short-term Debt Notes Payable</i>											
U.S. Dollar	6					6	279		279	6	279
Interest rate	3.25%										
Philippine Peso	43					43	2,000		2,000	43	2,000
Interest rate	PDST-F + 1.5%; 6.0896%										
	104	435	432	688	550	2,209	102,587	3,858	98,729	2,176	101,046

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the particular instrument.

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of December 31, 2011. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 15 basis points and 220 basis points higher/lower, respectively, as compared to levels as at December 31, 2010. If U.S. dollar interest rates had been 15 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php56 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 220 basis points higher/lower as compared to market levels as at December 31, 2010, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2010 would have been approximately Php785 million lower/higher, mainly as a result of higher/lower

interest expense on floating rate borrowings and loss/gain on derivative transactions. If U.S. dollar interest rates had been 90 basis points higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php527 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions. If Philippine peso interest rates had been 55 basis points higher/lower as compared to market levels as at December 31, 2009, with all other variables held constant, profit after tax for the year and our consolidated stockholders' equity as at year end 2009 would have been approximately Php241 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

Credit risk is the risk that we will incur a loss arising from our customers, clients or counterparties that fail to discharge their contracted obligations. We manage and control credit risk by setting limits on the amount of risk we are willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

We established a credit quality review process to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial data on our counterparties' credit ratings, capitalization, asset quality and liquidity. Our credit quality review process allows us to assess the potential loss as a result of the risks to which we are exposed and allow us to take corrective actions.

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The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments as at December 31, 2010 and 2009:

	Gross Maximum Exposure ⁽¹⁾		Net Maximum Exposure ⁽²⁾	
	2010	2009	2010	2009
	(in million pesos)			
Loans and receivables:				
Advances and refundable deposits	1,000	849	999	848
Cash and cash equivalents	36,678	38,319	36,458	38,101
Short-term investments	152	3,338	152	3,338
Foreign administrations	4,321	4,064	4,277	4,011
Retail subscribers	3,872	3,546	3,799	3,505
Corporate subscribers	2,042	2,429	1,918	2,328
Domestic carriers	1,453	1,184	1,453	1,184
Dealers, agents and others	4,740	3,506	4,740	3,506
Held-to-maturity investments:				
Investment in debt securities	484	462	484	462
Available-for-sale financial assets	147	134	147	134
Fair value through profit or loss:				
Short-term investments	517	486	517	486
Long-term currency swap	178		178	
Bifurcated embedded derivatives	5	6	5	6
Total	55,589	58,323	55,127	57,909

⁽¹⁾ Gross financial assets before taking into account any collateral held or other credit enhancements or offsetting arrangements.

⁽²⁾ Gross financial assets after taking into account any collateral held or other credit enhancements or offsetting arrangements or deposit insurance.

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The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties as at December 31, 2010 and 2009:

		Neither past due nor impaired		Past due but not impaired	Impaired
	Total	Class A ⁽¹⁾	Class B ⁽²⁾		
		(in million pesos)			
December 31, 2010					
Loans and receivables:					
Advances and refundable deposits	1,000	951	49		
Cash and cash equivalents	36,678	35,368	1,310		
Short-term investments	152	152			
Retail subscribers	8,917	946	926	2,000	5,045
Corporate subscribers	7,998	393	612	1,037	5,956
Foreign administrations	4,479	1,756	699	1,866	158
Domestic carriers	1,591	191	23	1,239	138
Dealers, agents and others	5,273	2,599	2,013	128	533
Held-to-maturity investments:					
Investment in debt securities	484	484			
Available-for-sale financial assets	147	108	39		
Fair value through profit or loss ⁽³⁾ :					
Short-term investments	517	517			
Long-term currency swap	178	178			
Bifurcated embedded derivatives	5	5			
Total	67,419	43,648	5,671	6,270	11,830
December 31, 2009					
Loans and receivables:					
Advances and refundable deposits	849	790	59		
Cash and cash equivalents	38,319	37,767	552		
Short-term investments	3,338	2,971	367		
Corporate subscribers	9,106	1,078	283	1,068	6,677
Retail subscribers	8,026	1,236	518	1,792	4,480
Foreign administrations	4,353	1,261	451	2,352	289
Domestic carriers	1,267	157	8	1,019	83
Dealers, agents and others	3,927	2,068	1,022	416	421
Held-to-maturity investments:					
Investment in debt securities	462	462			
Available-for-sale financial assets	134	103	31		
Fair value through profit or loss ⁽³⁾ :					
Short-term investments	486	486			
Bifurcated embedded derivatives	6	6			
Total	70,273	48,385	3,291	6,647	11,950

- (1) *This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.*
- (2) *This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.*
- (3) *Gross receivables from counterparties, before any offsetting arrangements.*

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The aging analysis of past due but not impaired class of financial assets as at December 31, 2010 and 2009 are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days (in million pesos)	61-90 days	Over 91 days	
December 31, 2010						
Loans and receivables:						
Advances and refundable deposits	1,000	1,000				
Cash and cash equivalents	36,678	36,678				
Short-term investments	152	152				
Retail subscribers	8,917	1,872	1,387	150	463	5,045
Corporate subscribers	7,998	1,005	642	159	236	5,956
Foreign administrations	4,479	2,455	616	393	857	158
Domestic carriers	1,591	214	165	182	892	138
Dealers, agents and others	5,273	4,612	21	20	87	533
Held-to-maturity investments:						
Investment in debt securities	484	484				
Available-for-sale financial assets	147	147				
Fair value through profit or loss:						
Short-term investments	517	517				
Long-term currency swap	178	178				
Bifurcated embedded derivatives	5	5				
Total	67,419	49,319	2,831	904	2,535	11,830

December 31, 2009

Loans and receivables:						
Advances and refundable deposits	849	849				
Cash and cash equivalents	38,319	38,319				
Short-term investments	3,338	3,338				
Corporate subscribers	9,106	1,361	433	198	437	6,677
Retail subscribers	8,026	1,754	1,362	184	246	4,480
Foreign administrations	4,353	1,712	1,320	405	627	289
Domestic carriers	1,267	165	283	293	443	83
Dealers, agents and others	3,927	3,090	332	21	63	421
Held-to-maturity investments:						

Investment in debt securities	462	462				
Available-for-sale financial assets	134	134				
Fair value through profit or loss:						
Short-term investments	486	486				
Bifurcated embedded derivatives	6	6				
Total	70,273	51,676	3,730	1,101	1,816	11,950

Impairment Assessments

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. Our impairment assessments are classified into two areas: individually assessed allowance and collectively assessed allowances.

Individually assessed allowance

We determine the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with our policy.

Capital Management Risk

We aim to achieve an optimal capital structure in pursuit of our business objectives which include maintaining healthy capital ratios and strong credit ratings, and maximizing shareholder value.

In recent years, our cash flow from operations has allowed us to substantially reduce debts and, in 2005, resume payment of dividends on common shares. Since 2005, our strong cash flow has enabled us to make investments in new areas and pay higher dividends.

Our approach to capital management focuses on balancing the allocation of cash and the incurrence of debt as we seek new investment opportunities for new businesses and growth areas. Our current dividend policy is to pay out 70% of our core income per common share. Further, in the event no investment opportunities arise, we may consider the option of returning additional cash to our shareholders in the form of special dividends or share buybacks. Philippine corporate regulations prescribe, however, that we can only pay out dividends or make capital distribution up to the amount of our unrestricted retained earnings.

As part of our goal to maximize returns to our shareholders, we obtained in 2008 an approval from the Board of Directors to conduct a share buyback program for up to five million PLDT common shares. We had acquired a total of approximately 2.72 million shares of PLDT's common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,505 million as at December 31, 2010. We had acquired a total of approximately 2.68 million shares of PLDT's common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million as at December 31, 2009. See Note 8 Earnings Per Common Share and Note 19 Equity to the accompanying consolidated financial statements in Item 18 for further discussion.

Some of our debt instruments contain covenants that impose maximum leverage ratios. In addition, our credit ratings from the international credit ratings agencies are based on our ability to remain within certain leverage ratios.

We monitor capital using several financial leverage measurements calculated in conformity with PFRS, such as net consolidated debt to equity ratio. Net consolidated debt is derived by deducting cash and cash equivalents and short-term investments from total debt (long-term debt and notes payable). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

The table below provides information regarding our consolidated debt to equity ratio as at December 31, 2010 and 2009:

	2010	2009
	(in million pesos)	
Long-term debt, including current portion (Note 20)	89,646	96,450
Notes payable (Note 20)		2,279
Total consolidated debt	89,646	98,729
Cash and cash equivalents (Note 15)	(36,678)	(38,319)
Short-term investments	(669)	(3,824)
Net consolidated debt	52,299	56,586
Equity attributable to equity holders of PLDT	97,069	98,575
Net consolidated debt to equity ratio	54%	57%

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Item 12. Description of Securities Other than Equity Securities

Item 12.D.3 Fees and Charges for Holders of American Depositary Receipts

JP Morgan Chase Bank, N.A., or the depositary, as depositary of our ADS collects fees from each person to whom ADS are issued, US\$5.00 for each 100 ADS (or portion thereof) issued, delivered, reduced, cancelled or surrendered.

The depositary also collects the following fees from holders of ADRs or intermediaries acting in their behalf:

US\$0.02 or less per ADS (or portion thereof) for any cash distribution made;

US\$1.50 per ADR for transfer made (to the extent such fee is not prohibited by the rules of the primary stock exchange upon which the ADSs are listed);

a fee in an amount equal to the fee for the execution and delivery of ADSs for the distribution or sale of securities, which would have been charged as a result of the deposit of such securities but which securities or the net proceeds from the sale thereof are instead distributed by the depositary to the holders entitled thereto;

US\$0.02 per ADS (or a portion thereof) per year for the services rendered by the depositary for administering the ADR program (which fee shall be assessed as of the record date or dates set by the depositary not more than once each calendar year and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distribution);

such fees and expenses as are incurred by the depositary (including without limitation expenses incurred on behalf of holders in compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in the delivery of the common stock or otherwise in connection with the depositary's or its custodian's compliance with applicable laws, rules or regulations;

stock transfer and other taxes and governmental charges (which are payable by the holder or person depositing the common stock), cable, telex and facsimile transmission and delivery charges incurred at the request of the person depositing the common stock or holder delivering the common stock, ADRs or deposited common stock (which are payable by such person or holder), transfer or registration fees for the registration or transfer of deposited common stock in connection with the deposit or withdrawal of the deposited common stock (which are payable by the person depositing or withdrawing deposited common stock), expense by the depositary in the conversion of foreign currency into U.S. dollars; and

any other charge payable by the depositary or its agents in connection with its service as depositary in implementation of the Company's ADR Program pursuant to Section 4.02, 4.03, 4.04, or 4.05 of the Deposit Agreement, as amended.

Item 12.D.4 Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse certain reasonable expenses of PLDT related to PLDT's ADR program and incurred by PLDT in connection with the ADR program. In the year ended December 31, 2010, the depositary reimbursed US\$958,900. The amounts the depositary reimbursed are not necessarily related to the fees collected by the depositary from ADR holders. Under certain circumstances, including termination of the ADR program prior to December 31, 2011, PLDT is required to repay to the depositary amounts reimbursed in prior periods. The table below sets forth the types of expenses that the depositary has agreed to reimburse and the amounts reimbursed for the year ended December 31, 2010:

Category of Expenses	Amount Reimbursed for
Investor relations and investor event fees	US\$ 643,783
Legal and accounting fees incurred in connection with the preparation of Form 20-F, ongoing SEC compliance and listing requirements	258,103

Listing fees	57,014
Total	US\$ 958,900

As part of its service to PLDT, the depositary has agreed to waive US\$150,000 per year in annual maintenance fees for the administration of the ADR program and absorb up to US\$50,000 per year of the depositary's out-of-pocket expenses, which in aggregate is estimated to total US\$200,000 for the year ended December 31, 2010.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, carried out an evaluation on the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as at December 31, 2010. Based on this evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as at December 31, 2010.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed and implemented under the supervision of our principal executive officers and principal finance officers, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the PLDT Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the PLDT Group are being made only in accordance with authorizations of our management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of the PLDT Group's internal control over financial reporting as of December 31, 2010, based on the criteria set forth in Internal Control – Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has determined that the internal control over financial reporting of the PLDT Group was effective as of December 31, 2010.

We reviewed the results of management's assessment with the Audit Committee of the Board of Directors.

SyCip, Gorres, Velayo & Co. (SGV), a member practice of the Ernst & Young Global, an independent registered public accounting firm, has audited our consolidated financial statements included in this annual report and has issued an attestation report on our internal control over financial reporting as at December 31, 2010. This attestation report is dated March 29, 2011 and is set forth in Item 18 – Financial Statements .

Changes in Internal Control Over Financial Reporting. During 2010, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that currently none of the members of the Audit Committee is an audit committee financial expert as defined under the applicable rules of the U.S. SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Because our board of directors believes that the audit committee members along with its advisors, possess sufficient financial knowledge and experience, our board of directors has not separately appointed an audit committee member who qualifies as an audit committee financial expert. Our board of directors has appointed Ms. Corazon de la Paz-Bernardo, a former member of our board of directors, as Audit Committee advisor to render advice on complex financial reporting or accounting issues that may be raised in our Audit Committee's evaluation of our financial statements and other related matters. Formerly the Chairman and a Senior

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Partner of Joaquin Cunanan & Company, now Isla Lipana & Co., and a member firm of PricewaterhouseCoopers Worldwide, Ms. Corazon de la Paz-Bernardo is a certified public accountant and possesses in-depth knowledge of accounting principles (including IFRS), internal controls and procedures for financial reporting and audit committee functions, as well as extensive experience in overseeing or actively supervising the preparation, audit, analysis or evaluation of financial statements and in addressing complex and general financial reporting, accounting and audit issues.

Item 16B. Code of Business Conduct and Ethics

PLDT recognizes that corporate governance is a key element in its strategy to accomplish the Company's mission, create value for its shareholders and stakeholders, and sustain its long-term viability. The Company's approach is to continuously improve its governance structures and processes on three levels: (1) compliance with the standards and requirements of laws and regulatory issuances and guidelines; (2) benchmarking against recognized international best practices and monitoring developments in corporate governance; and (3) fostering an ethical corporate culture guided by the principles of accountability, integrity, fairness and transparency.

PLDT conforms to the corporate governance laws, issuances, guidelines and standards of three jurisdictions. PLDT is subject to Philippine corporate governance laws, issuances, guidelines and standards as established by the Philippine SEC and the PSE. The Company is also subject to the standards set forth in U.S. Securities Exchange Act, the Sarbanes-Oxley Act of 2002 and the NYSE Listed Company Manual. As an investee company of various Philippine and other affiliates of First Pacific, PLDT likewise endeavours to conform with certain corporate governance guidelines of First Pacific which are based on the rules of the Hong Kong Stock Exchange in which First Pacific's shares are listed. The demanding regulatory regime under which PLDT operates has provided the impetus for PLDT to impose upon itself high standards of corporate governance and business conduct.

A. Code of Ethics and Other Policies

The Code of Ethics was approved by the Board on March 30, 2004 and subsequently updated on July 11, 2006, the Code of Ethics sets out the Company's business principles and values, which aim to promote a culture of good corporate governance. It provides standards that govern and guide all business relationships of PLDT, its directors, officers and employees, especially with respect to the following:

Compliance with applicable laws, rules and regulations;

Ethical handling of conflicts of interest, corporate opportunities and confidential information;

Protection and proper use of company assets;

Fair dealing with employees, customers, service providers, suppliers, and competitors;

Compliance with reporting and disclosure obligations to the relevant regulators and to investors;

Compliance with disclosure and financial reporting controls and procedures;