IMPORTANT NOTICE

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Any offer or sale of the Bonds within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or pursuant to an exempt transaction under the SRC. The offer or sale of the Bonds in the Philippines to (a) "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC, or (b) persons who are "qualified buyers" pursuant to Section 10.1(1) of the SRC, or (c) not more than nineteen (19) persons who are not "qualified buyers" during any twelve-month period pursuant to Section 10.1(k) of the SRC is exempt from registration. FPT Finance Limited (the "**Issuer**") has not obtained confirmation from the Philippine Securities and Exchange Commission that the offer and sale of the bonds within the Philippines qualifies as an exempt transaction. If necessary, the Issuer will file a notice of exemption from registration with the Philippine Securities and Exchange Commission pursuant to SRC Rule 10.1. Crédit Agricole Corporate and Investment Bank and Standard Chartered Bank (the "**Joint Lead Managers**") has represented, warranted and agreed that it has and will not sell or offer for sale or distribution any bonds in the Philippines except to "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC or to "qualified buyers" pursuant to Section 10.1(1) of the SRC. Prospective investors should take note of the transfer restrictions set out in Rule 9.2(2) B of the amended implementing rules of the SRC.

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The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

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US$400,000,000

FPT FINANCE LIMITED

(incorporated in the British Virgin Islands with limited liability)

6.375% GUARANTEED SECURED BONDS DUE 2020

irrevocably and unconditionally guaranteed by

FIRST PACIFIC

FIRST PACIFIC COMPANY LIMITED

(incorporated in Bermuda with limited liability)

ISSUE PRICE: 100.0%

The US$400,000,000 6.375% Guaranteed Secured Bonds due 2020 (the "Bonds") offered hereby by FPT Finance Limited (the "Issuer") will be secured by a share pledge under Philippine law (the "Share Pledge") granted by Philippine Telecommunications Investment Corporation ("PTIC") over common shares (the "PLDT Shares") in Philippine Long Distance Telephone Company ("PLDT"). The Bonds are also irrevocably and unconditionally guaranteed (the "Guarantee") by First Pacific Company Limited (the "Guarantor" or "First Pacific").

The Bonds will constitute direct, unconditional, secured obligations of the Issuer. The Bonds will be secured in the manner described in Condition 3 of the Bonds and shall at all times rank *pari passu* and without any preference or priority amongst themselves. The Guarantee will constitute a direct, unsecured and unsubordinated obligation of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific save for such exceptions as may be provided by applicable laws.

The Bonds will bear interest from 28 September 2010 at the rate set forth above, payable semi-annually in arrear on 28 March and 28 September of each year (commencing 28 March 2011). The Bonds mature on 28 September 2020 but may be redeemed before then, in whole but not in part at the option of the holder of the Bonds (the "Bondholder"), on the occurrence of a Change of Control or a Delisting (as such terms are defined in the "Terms and Conditions of the Bonds"). The Bonds may also be redeemed at the option of the Issuer in the event of certain developments affecting taxation, as described in this Offering Circular.

An application has been made for the listing of the Bonds on the Official List of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, First Pacific, PTIC, PLDT or the Bonds.

Investing in the Bonds involves risks. Please see "Risk Factors" beginning on page 21.

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the U.S. except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds will be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 28 September 2010 with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Bookrunners and Joint Lead Managers

Crédit Agricole CIB **Standard Chartered Bank**

20 September 2010

The Issuer and the Guarantor are responsible for the accuracy and completeness of the information in this Offering Circular and the Issuer and the Guarantor represent and warrant that the information in this Offering Circular is in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any material respect, provided that for the information provided by third-party sources contained herein, the Issuer and the Guarantor accept responsibility for accurately reproducing such information but accept no further or other responsibility in respect of such information.

Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as at the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuer and the Guarantor may have changed since that date.

This Offering Circular is based on information provided by the Issuer and the Guarantor and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY BOND OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE GUARANTOR OR THE GUARANTOR'S SUBSIDIARIES OR ASSOCIATES OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, Crédit Agricole Corporate and Investment Bank and Standard Chartered Bank (the latter two collectively referred to as the "Joint Lead Managers") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the U.S., the United Kingdom, Singapore, Hong Kong, the Philippines, the British Virgin Islands and Bermuda, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the offering of the Bonds related thereto and described herein. The Issuer, the Guarantor and the Joint Lead Managers reserve the right to reject any offer to purchase the Bonds offered hereby in the primary market, in whole or in part, for any reason.

Each person receiving this Offering Circular acknowledges that (i) such person has been afforded an opportunity to request from the Issuer and the Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Joint Lead Managers or any person affiliated with a Joint Lead Manager in connection with any investigation of the accuracy of such information or its investment decision, and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantor or the Bonds (other than as contained herein and information given by duly authorised officers and employees of the Issuer and the Guarantor in connection with investors' examination of the Issuer and the Guarantor and the terms of the offering of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers or the Trustee.

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the offering of the Bonds, including the merits and risks involved. The Bonds have not been recommended by the Issuer, the Guarantor, the Joint Lead Managers or the Trustee.

No representation or warranty, expressed or implied, is made by the Joint Lead Managers or the Trustee as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Joint Lead Managers or the Trustee has independently verified any of such information and assume any responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Joint Lead Managers or the Trustee accept any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular.

IN CONNECTION WITH THIS OFFERING, CRÉDIT AGRICOLE CIB, AS STABILISING MANAGER (THE "STABILISING MANAGER") OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE BONDS.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under “Risk Factors”, “Business of First Pacific” and elsewhere in this Offering Circular constitute “forward-looking statements”. The words including “believe”, “expect”, “plan”, “anticipate”, “schedule”, “estimate” and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer, First Pacific, Philippine Long Distance Telephone Company (“PLDT”), Metro Pacific Investments Corporation (“MPIC”), PT Indofood Sukses Makmur Tbk (“Indofood”) and Philex Mining Corporation (“Philex”) and the plans and objectives of the Issuer’s, First Pacific’s, PLDT’s, MPIC’s, Indofood’s and Philex’s management for its respective future operations (including development plans and objectives relating to the operations of the Issuer, First Pacific and its subsidiaries (the “Group”), PLDT and Philex and other associates of the Group, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Issuer, First Pacific, the Group, PLDT, Philex and other associates of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer’s, First Pacific’s, the Group’s, PLDT’s, Philex’s or other associates of the Group present and future business strategies and the environment in which the Issuer, First Pacific, the Group, PLDT, Philex or other associates of the Group will operate in the future. Each of the Issuer and First Pacific expressly disclaim any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer’s and First Pacific’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under “Risk Factors” and elsewhere, important factors that could cause actual results to differ materially from the expectations of the Issuer or First Pacific. All subsequent written and forward-looking statements attributable to the Issuer or First Pacific or persons acting on behalf of the Issuer or First Pacific are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Unless indicated otherwise, in this Offering Circular all references to (i) the "Issuer" are to FPT Finance Limited, (ii) the "Guarantor" and "First Pacific" are to First Pacific Company Limited, (iii) "PTIC" are to Philippine Telecommunications Investment Corporation, (iv) "PLDT" are to Philippine Long Distance Telephone Company, (v) the "Group" are to First Pacific and its subsidiaries, (vi) "MPIC" are to Metro Pacific Investments Corporation, (vii) "Indofood" are to PT Indofood Sukses Makmur Tbk and (viii) "Philex" are to Philex Mining Corporation.

Unless otherwise specified or the context requires, references herein to "Hong Kong dollars", "HK dollars" or "HK$" are to the lawful currency of Hong Kong, references herein to "U.S. dollars", "US$" or "U.S. cents" are to the lawful currency of the United States of America, references herein to "peso" or "₱" are to the lawful currency of the Republic of the Philippines, references to "Rupiah" or "Rp" are to the lawful currency of the Republic of Indonesia, references to "HKFRS" are to the Hong Kong Financial Reporting Standards, references to "PFRS" are to the Philippine Financial Reporting Standards and references to "Indonesian GAAP" are to accounting principles generally accepted in Indonesia. Unless otherwise stated, currency translations in this Offering Circular in relation to figures relating to a fiscal year or an interim period were made and have been made on the basis of the following exchange rates as specified in the relevant annual reports or interim report of First Pacific related to the particular fiscal year or interim period and are summarised below:

	Average exchange rates			Closing exchange rates		
First Pacific Annual Report for the fiscal year:	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Peso/US$1.00	47.81	44.68	45.86	46.20	47.52	41.28
Rupiah/US$1.00	10,349	9,700	9,163	9,400	10,950	9,419

	Average exchange rates		Closing exchange rates	
First Pacific Interim Report for the six months period:	**2010**	**2009**	**2010**	**2009**
Peso/US$1.00	45.81	48.06	46.37	48.13
Rupiah/US$1.00	9,208	11,022	9,083	10,225

No representation is made that the U.S. dollar, peso, Rupiah or HK dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, peso, Rupiah or HK dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rates".

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

INCORPORATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of First Pacific which are contained in the annual reports of First Pacific as at and for the years ended 31 December 2007 and 2008 are incorporated by reference in this Offering Circular. Copies of the financial statements are available and may be obtained free of charge at the specified office of the First Pacific at 24/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong. The financial statements for First Pacific were prepared in conformity with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety. The summary is also qualified in its entirety by the audited and unaudited consolidated financial statements of First Pacific and PLDT and notes thereto appearing elsewhere in this Offering Circular.

OVERVIEW

First Pacific was founded in May 1981 and was incorporated in Bermuda in May 1988 as a limited liability company. First Pacific is a Hong Kong-based investment holding and management company with its principal business interests in Southeast Asia relating to telecommunications, infrastructure, consumer food products and natural resources.

The principal business activities of the Group and its affiliates and associated companies are as follows:

Telecommunications

PLDT, of which an approximately 26.5% economic interest is held by the Group, is the leading telecommunications service provider in the Philippines. Through its three principal business groups, wireless (operated principally through its wholly-owned subsidiary Smart Communications, Inc. ("Smart")), fixed line (operated principally through PLDT), and information and communications technology ("ICT") (operated principally through its wholly-owned subsidiary ePLDT, Inc. ("ePLDT")), PLDT offers the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Infrastructure

MPIC, an affiliate of First Pacific, of which an approximately 55.6% economic interest is held by the Group, is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

Consumer Food Products

Indofood, a 50.1%-owned indirect subsidiary of First Pacific, is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: consumer branded products ("CBP") (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Natural Resources

Philex, of which an approximately 31.4% economic interest is held by the Group, is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex also holds selected interests in the oil and petroleum business. In addition, Two Rivers Pacific Holdings Corporation ("Two Rivers"), a Philippine affiliate of First Pacific, holds an approximately 15.0% interest in Philex.

The major shareholder of First Pacific is Anthoni Salim, who directly or indirectly owned approximately 43.87% of the issued share capital of First Pacific as at the date of this Offering Circular.

First Pacific is listed on The Stock Exchange of Hong Kong Limited ("SEHK") and maintains an American Depositary Receipt facility in the United States, with a market capitalisation of approximately HK$27.3 billion as at 17 September 2010. For the year ended 31 December 2009 and the six months ended 30 June 2010, First Pacific reported turnover of US$3,925.6 million and US$2,161.5 million and profit attributable to owners of the parent of US$401.6 million and US$188.5 million, respectively.

STRENGTHS

First Pacific believes that it has the following core strengths:

Strong and Consistent Cash Flow

Primarily through its economic interest in PLDT, of which it is the single largest shareholder and exercises significant influence, First Pacific receives strong recurring dividend income. With respect to the financial years ended 31 December 2007, 2008 and 2009, PLDT paid out approximately 100% of its core net income as dividends to its shareholders, resulting in dividend payments of ₱34.8 billion, ₱37.5 billion and ₱40.7 billion, respectively. Through its economic interest in PLDT, First Pacific consequently received cash dividends of the equivalent of approximately US$153 million, US$208 million and US$203 million in the years ended 31 December 2007, 2008 and 2009. In August 2010, PLDT declared an interim regular dividend representing approximately 70% of its core earnings for the first six months ended 30 June 2010. PLDT's dividend policy is to pay regular dividends at 70% of core earnings per share together with a "look back" approach with respect to any supplementary special dividends. Furthermore, Indofood paid out approximately 40% of its net income as dividends to its shareholders in the years ended 31 December 2007, 2008 and 2009. Through its equity interest in Indofood, First Pacific consequently received cash dividends of the equivalent of approximately US$14 million, US$19 million and US$18 million in those years. In May 2010, Indofood declared its final dividend for financial year 2009, which resulted in a cash dividend income to First Pacific of approximately US$41 million in September 2010. On 4 August 2010, MPIC declared a cash dividend, which resulted in a cash dividend income to First Pacific of approximately US$2 million in September 2010. In August 2010, Philex declared an interim dividend, which in accordance with its dividend policy, represents 25% of its core earnings for the first six months ended 30 June 2010, which resulted in a cash dividend income to First Pacific of approximately US$2 million in September 2010.

Leading Market Position

The Group's main business segments enjoy significant market positions in their respective sectors. PLDT is the leading cellular service and fixed line telecommunications services provider in the Philippines, with approximately 53% and 56% of total reported cellular and fixed line subscribers nationwide as at 30 June 2010, respectively. MPIC's main subsidiaries, Maynilad Water Services, Inc. ("Maynilad") and Metro Pacific Tollways Corporation ("Metro Pacific Tollways" or "MPTC"), as well as its associated company, Manila Electric Company ("Meralco"), are leading infrastructure operating companies in the Philippines. Under concessions expiring in 2037, Maynilad is the exclusive concessionaire to distribute water in the West Zone of Metro Manila and MPTC is the exclusive concessionaire to operate the North Luzon Expressway ("NLEX") toll road while Meralco is the franchised exclusive distributor of electricity in substantially all of its service areas, with the franchise valid until 2028. Indofood is one of the largest total integrated food solutions companies in Indonesia.

Diversified Portfolio of Major Philippine Infrastructure Assets

MPIC, an affiliate of First Pacific, has assembled a diversified portfolio of Philippine infrastructure and utility companies, and has potential for long-term growth and stable cash flows. These include (i) Maynilad, currently the exclusive provider of water utilities services to approximately 7.2 million people in the West Service Area of the Metropolitan Waterworks and Sewerage System ("MWSS"), making it the largest water concessionaire by customer base in the Philippines; (ii) MPTC, the operator of the NLEX, Subic Clark Tarlac Expressway ("SCTEx") and Subic Freeport Expressway, which comprise three of the major toll road developments in the Philippines; and (iii) Meralco, the largest private sector electricity distribution utility in the Philippines.

Experienced Management Team

First Pacific considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining a strong management team. First Pacific's senior management team has significant experience in each of its businesses and a strong track record of maximising profitability, integrating acquisitions and realising synergies within and across First Pacific's businesses. First Pacific's senior management has a developed understanding of local markets and has strong relationships with government and regulatory agencies, international consultants and sources of capital.

STRATEGY

First Pacific's principal business strategy is to promote the continuing growth in profitability across all group companies and associated companies whilst further exploring investment opportunities in the Asian emerging markets, focusing on its existing core businesses across the region. To position itself better for growth, First Pacific will seek to increase its cashflow and implement a capital management programme.

Specific strategies for First Pacific's telecommunications, infrastructure, consumer food products and natural resources operations are set forth below:

Telecommunications

Build on PLDT's Leading Positions in the Fixed Line and Wireless Businesses.

PLDT and Smart plan to build on their position as the leading wireless service provider in the Philippines by continuing to introduce new products and services (in particular, broadband services) to increase its subscribers' use of their network for both voice and data, as well as subscribers' reliance on their services. PLDT is currently upgrading its fixed line facilities to the Next Generation Network, and has rolled out a 3G network based on its W-CDMA technology as well as expanding its digital subscriber lines ("DSL") and wireless broadband facilities.

Capitalise on PLDT's Strength as an Integrated Provider of Telecommunications Services.

PLDT offers the broadest range of telecommunications services among all operators in the Philippines. It plans to capitalise on this position to maximise revenue opportunities by bundling and cross-selling its products and services, and by developing convergent products that feature the combined benefit of voice and data, fixed line, wireless and information and communications technology services utilising PLDT's network and business platforms. PLDT is also lowering its costs by integrating the operations of its different businesses.

Strengthen PLDT's Leading Position in the Data and Broadband Market.

Leveraging on the inherent strength of its fixed line and wireless businesses, PLDT is committed to further develop its fastest growing business segment — broadband, data and other network services. Consistent with its strategy of introducing innovative products and services using advanced technology, PLDT has launched various products and services that address different market needs.

Infrastructure

Increase Profitability of its Core Infrastructure Assets.

MPIC plans to increase the profitability of its core infrastructure assets, enhance portfolio value and grow dividend flows through prudent management. In the water utilities business, MPIC intends to increase Maynilad's profitability by expanding its water utilities services principally in the West Zone to reach the approximately 2.1 million customers either currently without piped services or underserved in terms of water availability and pressure, increasing per capita water consumption, reducing non-revenue water ("NRW") and improving efficiencies in water delivery and revenue collection. In the toll roads business, MPIC intends to build, expand and operate various toll road facilities and extensions to the NLEX in order to increase traffic volumes and enjoy economies of scale. In the electricity distribution business, MPIC intends to increase Meralco's profitability by ensuring its performance meets the requirements of the guaranteed service level performance payouts and for Meralco to enjoy a financial return as stipulated in the performance-based regulation ("PBR") for meeting those requirements. In its healthcare business, MPIC intends to develop its core holdings into the first nationwide chain of hospitals across the Philippines, featuring superior facilities and quality medical services.

Develop and Maintain a Diverse Set of Infrastructure Assets.

MPIC intends to maintain and continue to develop a diverse portfolio of infrastructure assets. MPIC believes that its existing investments in water utilities, toll roads, electricity distribution and healthcare services should provide strong and stable revenues. It also believes that there are other areas in the infrastructure sector that may provide opportunities for further risk diversification.

Growth Through Further Investments in Attractive Infrastructure Assets.

MPIC is committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations. Accordingly, it intends to monitor closely strategic opportunities in the Philippines. MPIC intends to leverage its sophisticated management team and strong relationships to identify attractive targets in the infrastructure sector and execute its growth plans.

Consumer Food Products

Maintain Market Leadership in Indofood's Key Consumer Branded Products.

Indofood plans to maintain its market leadership by continuing to invest in its brands to strengthen their brand equity with consumers. It intends to continue with advertising and promotion activities that enhance consumer awareness and loyalty. In conjunction with its marketing initiatives, Indofood plans to continue with its rural development programme. Commencing in 2009, the programme is intended to increase the distribution and penetration of its products in rural areas by pulling demand and pushing availability. Furthermore, Indofood plans to continue to meet consumers' changing preferences and ensure its products' relevance through product innovation and rejuvenation.

Further Develop its Agribusiness.

Crude palm oil continues to represent one of the cheapest vegetable oils, with continuing strong demand, especially from emerging countries, and as bio-diesel use increases, particularly in European countries. Indofood intends to capitalise on the long-term prospects of crude palm oil by continuing its strategy of new plantings and improvements in productivity through improved research and development capabilities, continuous improvement of agronomy practices and enhancement of human resources skills. Indofood also plans to continue to expand its operations into sugar production, where shortages in both the domestic and international markets continue to provide opportunities to further expand its sugar operation. Indofood expects sugar to become the second crop of its agribusiness operations and in the future create a significant contribution to Indofood's Agribusiness group.

Natural Resources

Become a Dominant Gold and Copper Producer in the Philippines.

In August 2009, the operating life of the mine at the Sto. Thomas II deposit located at Padcal, Tuba, Benguet Province, Philippines (the "Padcal Mine") was extended from 2014 to 2017. Philex intends to conduct further exploratory drilling in adjacent areas to assess if there are further resources that could be mined in the years ahead. In April 2010, Philex acquired the residual interest and completed a tender offer to acquire full ownership of the resource and reserves of Boyongan and Bayugo mineral deposits located in Surigao del Norte, Northern Mindanao, Philippines (the "Silangan Project"). In the medium term, technical and financial resources will be devoted primarily to bringing this project into production as soon as practicable. The Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver. A pre-feasibility study on the Silangan Project Boyongan deposit in October 2008 concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 0.87% copper and 1.39 grams per tonne of gold. The preliminary mineral resource estimates for Silangan Project Bayugo deposit were completed in November 2009, with indicated mineral resources of 85.7 million tonnes with 0.88% copper and 0.73 grams per tonne of gold and inferred resources of 32.7 million tonnes with 0.75% copper and 0.63 grams per tonne of gold. Drilling of the Bayugo deposit to define further the mineralisation limits and to upgrade the resource to measured from indicated has been completed and is now in the process of resource estimation.

THE OFFERING

The following is a brief summary of the terms of the offering of the Bonds. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Bonds".

Issuer	FPT Finance Limited
Guarantor	First Pacific Company Limited
Bonds Offered	US$400,000,000 aggregate principal amount of 6.375% Guaranteed Secured Bonds due 2020 (the "Bonds").
Guarantee	Payment of all sums from time to time payable in respect of the Bonds is irrevocably and unconditionally guaranteed by First Pacific.
Issue Price	100.0%.
Maturity Date	28 September 2020.
Interest Payment Dates	28 March and 28 September in each year, commencing on 28 March 2011.
Interest	The Bonds will bear interest from 28 September 2010 at the rate of 6.375% per annum, payable semi-annually in arrear.
Ranking of the Bonds	The Bonds will constitute direct, unconditional, secured obligations of the Issuer. The Bonds will be secured in the manner described in Condition 3 of the Bonds and shall at all times rank *pari passu* and without any preference or priority amongst themselves.
Ranking of the Guarantee	The Guarantee will constitute a direct, unsecured and unsubordinated obligation of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific, save for such exceptions as may be provided by applicable laws.
Events of Default	The Bonds will contain certain events of default, including a cross default provision as further described in Condition 10 of the Bonds.
Security	The Bonds will be secured by: (i) the Share Pledge, governed by Philippine law, over all rights, benefit and title of PTIC in the Initial PLDT Shares and any Additional PLDT Collateral; and (ii) any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(c) of the Bonds.

Charged Property . . . . The Charged Property consists of:

(i) The Share Pledge: Initially, PLDT Shares (the number of PLDT Shares to be secured initially will be calculated based on their Market Value on the Closing Date, for illustrative purposes only, based on the Market Value of approximately US$58 for one PLDT Share on 20 September 2010, approximately 13.8 million PLDT Shares would be initially subject to the Share Pledge) will be subject to the Share Pledge, representing a Collateral Value of at least 200% of the Reference Amount. If at any time and from time to time the Collateral Value is less than 150% of the Reference Amount, the Issuer shall as soon as possible and in any event within 13 Business Days provide security over Additional PLDT Collateral and/or cash or Cash-equivalent Securities (at the Issuer's discretion) so that the aggregate Collateral Value is at least 215% of the Reference Amount. To the extent that the Collateral Value at any time exceeds (i) 250% of the Reference Amount, the Issuer may, at any time, cause such reduction in the PLDT Shares and/or cash or Cash-equivalent Securities secured as Collateral and (ii) 215% of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral, in either case, (such reduction to be made in the amount of PLDT Shares and/or cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such PLDT Shares and/or cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer in writing (and a copy of such instruction should be provided to the Trustee)) as will result in the Collateral Value being at least equal to 215% of the Reference Amount.

(ii) Additional Security: Any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(d) of the Bonds.

Covenants . . . . Subject to certain conditions as further described in Conditions 4(d) and 4(e) of the Bonds, First Pacific has undertaken not to make any Asset Disposition including any Asset Disposition which reduces First Pacific's interest in PLDT as at the Closing Date to less than 25%.

Tax Redemption	The Bonds may be redeemed at any time at the option of the Issuer, in whole but not in part, at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, the Issuer or First Pacific is, or would be, obliged to pay additional amounts in respect of the Bonds. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation".
Change of Control	The Bonds may be redeemed at any time following the occurrence of a Change of Control at the option of the Bondholder, in whole but not in part, at 101% of the principal amount thereof, plus accrued and unpaid interest.
Delisting	The Bonds may be redeemed at any time following the occurrence of a Delisting, except when such Delisting is at the instruction or request of First Pacific, at the option of the Bondholder, in whole or in part, at 100% of the principal amount thereof, plus accrued and unpaid interest.
Further Issues	The Issuer and First Pacific may from time to time, without the consent of Bondholders create and issue further notes or bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first interest payment date). Additional Bonds issued in this manner will be consolidated and form a single series with the previously outstanding Bonds.
Governing Law	The Bonds and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by English law. The Share Pledge will be governed by Philippine law.
Denomination, Form and Registration	The Bonds will be registered and issued in the denomination of US$100,000 and integral multiples of US$1,000 in excess thereof.
Clearing Systems	The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS0544536047 Common Code: 054453604

Listing	An application has been made for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum trading board lot size of US$200,000 for so long as the Bonds are listed on the SGX-ST.
Trustee	DB Trustees (Hong Kong) Limited
Registrar	Deutsche Bank Luxembourg S.A.
Principal Paying Agent	Deutsche Bank AG, Hong Kong Branch
Use of Proceeds	The net proceeds of the offering of the Bonds, after deducting underwriting commissions and other expenses payable by First Pacific, are estimated to be approximately US$394.8 million. The net proceeds will be on-lent by the Issuer to First Pacific who will use the net proceeds for the repayment of at least US$250 million of its outstanding debts and for general corporate purposes.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF FIRST PACIFIC

The following tables present the summary consolidated financial information for First Pacific. The summary consolidated financial information presented below have been derived from the audited consolidated financial statements of First Pacific as at and for the years ended 31 December 2007, 2008 and 2009 and the unaudited condensed consolidated financial statements of First Pacific as at and for the six months ended 30 June 2009 and 2010. First Pacific's consolidated financial statements as at and for the years ended 31 December 2007, 2008 and 2009 and First Pacific's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2009 and 2010 have been audited and reviewed respectively by Ernst & Young, Hong Kong, independent certified public accountants. The financial data should be read in conjunction with, and are qualified in their entirety by reference to, the audited consolidated financial statements and the unaudited condensed consolidated financial statements of First Pacific including the notes thereto included elsewhere in this Offering Circular or incorporated by reference. The audited consolidated financial statements and the unaudited condensed consolidated financial statements of First Pacific are prepared and presented in accordance with HKFRS.

	For the Years Ended 31 December			For the Six Months Ended 30 June	
	2007 Restated	2008	2009	2009	2010
	(US$ in millions)				
Summary Consolidated Income Statement Data:					
Turnover	3,040.8	4,105.3	3,925.6	1,809.1	2,161.5
Cost of sales	(2,320.7)	(3,103.4)	(2,739.9)	(1,279.8)	(1,384.8)
Gross profit	720.1	1,001.9	1,185.7	529.3	776.7
Gain on dilutions, divestments and disposals	356.1	28.7	85.9	—	1.5
Distribution costs	(254.2)	(273.9)	(289.0)	(137.8)	(174.6)
Administrative expenses	(170.7)	(256.8)	(286.8)	(138.5)	(175.7)
Other operating income/(expenses), net	0.6	(144.9)	105.1	96.9	(7.5)
Net borrowing costs	(137.1)	(150.5)	(230.3)	(110.7)	(118.2)
Share of profits less losses of associated companies and joint ventures	239.7	192.9	233.4	114.1	141.2
Profit before taxation	754.5	397.4	804.0	353.3	443.4
Taxation	(94.0)	(61.4)	(143.7)	(52.7)	(86.8)
Profit for the year/period from continuing operations	660.5	336.0	660.3	300.6	356.6
Profit for the year/period from a discontinued operation	5.1	0.6	1.1	2.7	—
Profit for the year/period	665.6	336.6	661.4	303.3	356.6
Attributable to:					
Owners of the parent	504.8	200.8	401.6	164.3	188.5
Non-controlling interests	160.8	135.8	259.8	139.0	168.1
	665.6	336.6	661.4	303.3	356.6

	As at 31 December			As at 30 June
	2007 Restated	2008	2009	2010
	(US$ in millions)			
Selected Consolidated Statement of Financial Position Data:				
Cash and cash equivalents	600.8	625.9	936.6	889.8
Restricted cash and pledged deposits	—	12.0	29.2	29.3
Total assets	5,221.1	7,199.0	9,397.3	9,664.6
Total borrowings (including short-term borrowings)	2,044.6	3,158.7	3,685.3	3,550.4
Total liabilities	3,098.1	4,823.8	5,358.2	5,306.9
Total equity	2,123.0	2,375.2	4,039.1	4,357.7

	For the Years Ended/as at 31 December			For the Six Months Ended/as at 30 June	
	2007 Restated	2008	2009	2009	2010
	(US$ in millions)				
Other Consolidated Financial Data:					
Capital expenditures	106.3	300.5	389.8	187.9	242.7
Depreciation and amortisation	64.5	106.5	177.9	93.4	93.3
Selected Head Office Financial Data:					
Dividend income(1)(2)	166.3	226.2	221.6	126.4	151.4
Net interest expense(2)	36.3	29.9	24.0	11.7	15.5
Net debt (at end of year/period)(2)	532.4	731.3	651.7	682.4	879.2

Note:

(1) Decline in Head Office's dividend income from US$226.2 million in the year ended 31 December 2008 to US$221.6 million in the year ended 31 December 2009 is due solely to the depreciation of the peso and rupiah against the U.S. dollar.

(2) Includes the amounts of certain wholly-owned financing and holding companies.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF PLDT

The following tables present the summary consolidated financial information for PLDT. The summary consolidated financial information presented below as at and for the years ended 31 December 2007, 2008 and 2009 was derived from the consolidated financial statements of PLDT, audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited, in accordance with Philippine Standards on Auditing. The selected consolidated financial information for the six-month periods ended 30 June 2009 and 2010 was derived from the unaudited interim consolidated financial statements of PLDT, reviewed by SyCip Gorres Velayo & Co. in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The audited consolidated financial statements as at and for the years ended 31 December 2007, 2008 and 2009 and the unaudited interim consolidated financial statements as at and for the six-month periods ended 30 June 2009 and 2010 included in this Offering Circular have been prepared in accordance with PFRS.

	For the Years Ended 31 December				For the Six Months Ended 30 June		
	2007	2008	2009	2009	2009	2010	2010
	₱	₱	₱	US$ (in millions)	₱	₱	US$
Summary Consolidated Income Statements Data:							
REVENUES							
Service revenues	135,478	142,873	145,647	3,046.4	72,871	72,156	1,575.1
Non-service revenues	2,480	2,709	2,346	49.0	1,207	1,051	23.0
	137,958	145,582	147,993	3,095.4	74,078	73,207	1,598.1
EXPENSES							
Depreciation and amortisation	28,613	24,709	25,607	535.6	13,133	13,054	285.0
Compensation and employee benefits	20,470	20,709	23,100	483.2	11,543	11,247	245.5
Repairs and maintenance	7,310	8,569	8,631	180.5	4,247	4,512	98.5
Selling and promotions	5,541	5,695	5,749	120.2	2,839	2,667	58.2
Cost of sales	5,127	5,252	5,432	113.6	2,563	2,389	52.2
Asset impairment	1,317	4,180	5,061	105.9	953	1,220	26.6
Professional and other contracted services	5,588	4,591	4,361	91.2	2,094	2,302	50.3
Rent	2,762	3,656	4,055	84.8	2,050	2,173	47.4
Taxes and licences	2,319	2,736	2,881	60.3	1,373	1,303	28.4
Communication, training and travel	1,850	1,993	1,902	39.8	905	847	18.5
Insurance and security services	1,197	1,196	1,264	26.4	643	553	12.1
Amortisation of intangible assets	390	377	368	7.7	187	178	3.9
Provisions	666	898	—	—	—	—	
Other expenses	1,306	1,225	1,700	35.5	788	856	18.7
	84,456	85,786	90,111	1,884.7	43,318	43,301	945.3
	53,502	59,796	57,882	1,210.7	30,760	29,906	652.8
OTHER INCOME (EXPENSES)							
Interest income	1,503	1,668	1,539	32.2	900	612	13.4
Foreign exchange gains (losses) - net	2,976	(6,170)	909	19.0	(292)	(59)	(1.3)
Equity share in net earnings (losses) of associates and joint ventures	(11)	(176)	2	—	(65)	881	19.2
Gains (losses) on derivative financial instruments - net	(1,044)	3,812	(1,006)	(21.0)	(1,631)	934	20.4
Financing costs - net	(7,088)	(6,104)	(6,556)	(137.1)	(3,117)	(3,451)	(75.3)
Other income	3,419	1,665	2,069	43.3	716	554	12.1
	(245)	(5,305)	(3,043)	(63.6)	(3,489)	(529)	(11.5)
INCOME BEFORE INCOME TAX	53,257	54,491	54,839	1,147.1	27,271	29,377	641.3
PROVISION FOR INCOME TAX	17,279	19,193	14,744	308.4	7,000	7,756	169.3
NET INCOME FOR THE YEAR/PERIOD	35,978	35,298	40,095	838.7	20,271	21,621	472.0
ATTRIBUTABLE TO:							
Equity holders of PLDT	36,004	34,635	39,781	832.1	19,720	21,679	473.2
Non-controlling interests	(26)	663	314	6.6	551	(58)	(1.2)
	35,978	35,298	40,095	838.7	20,271	21,621	472.0

	As at 31 December				As at 30 June	
	2007	2008	2009	2009	2010	2010
	₱	₱	₱	US$	₱	US$
	(in millions)					
Selected Consolidated Statement of Financial Position Data:						
Cash and cash equivalents	17,447	33,684	38,319	829.4	28,878	622.8
Total assets	240,158	252,558	280,148	6,063.8	264,316	5,700.2
Total debt (total interest-bearing financial liabilities excluding obligations under finance lease and preferred stock subject to mandatory redemption)	60,640	73,911	98,729	2,137.0	93,356	2,013.3
Total liabilities	127,647	145,589	181,023	3,918.2	169,915	3,664.4
Total equity	112,511	106,969	99,125	2,145.6	94,401	2,035.8

	For the Years Ended 31 December				For the Six Months Ended 30 June		
	2007	2008	2009	2009	2009	2010	2010
	₱	₱	₱	US$	₱	₱	US$
	(in millions)						
Other Consolidated Financial Data:							
Capital expenditures	24,824	25,203	28,069	587.1	10,666	9,700	211.7
Depreciation and amortisation	28,613	24,709	25,607	535.6	13,133	13,054	285.0

Note: The U.S. dollar translations are provided for indicative purposes only and are unaudited. These translations were calculated based on the following peso/US$ exchange rates:

Average exchange rates		Closing exchange rates	
Year Ended 31 December 2009	Six Months Ended 30 June 2010	As at 31 December 2009	As at 30 June 2010
47.81	45.81	46.20	46.37

RISK FACTORS

The following is a summary of certain aspects of the Bonds, the Security, the Guarantee and the related transactions about which prospective Bondholders should be aware. The risk factors described below do not purport to be complete or comprehensive of all the risks that may be involved in the operations, businesses, financial condition (including debt financing and refinancing risks), performance or prospects of the Issuer, First Pacific, PLDT, MPIC, Indofood, Philex and the subsidiaries and associated companies of First Pacific, or any decision to purchase, own or dispose of the Bonds. Additional risks which the Issuer and/or First Pacific are currently unaware, or which the Issuer and/or First Pacific currently deem immaterial, may also impair the operations, businesses, financial condition (including debt financing and refinancing risks), performance or prospects of the Issuer, First Pacific, PLDT, MPIC, Indofood, Philex and the subsidiaries and associated companies of First Pacific. Prospective Bondholders should read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. The Bonds are suitable for purchase only by investors who understand and are able to bear the risks associated with them, including the risks set out below.

Risks Relating to First Pacific and the Guarantee

First Pacific is a holding company and the Guarantee will be structurally subordinated to all existing and future obligations of First Pacific's subsidiaries and investments (including associated companies such as PLDT and Philex).

First Pacific is a holding company that operates through subsidiaries and investments (including associated companies such as PLDT and Philex). As a result, First Pacific's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its direct and indirect subsidiaries and associated companies. All claims of creditors of these subsidiaries and associated companies, including trade creditors, lenders and all other creditors, will have priority as to the assets of such entities over claims of First Pacific and its creditors, including Bondholders as beneficiaries of the Guarantee.

As at 31 December 2009 and 30 June 2010, the net debt (representing the total of short-term and long-term borrowings, including loan capital, net of cash and cash equivalents, restricted cash and pledged deposits) of First Pacific and its subsidiaries was approximately US$2,719.5 million and US$2,631.3 million, respectively, and the consolidated gearing ratio (calculated by net debt divided by the total equity) was 0.67 times and 0.60 times, respectively. First Pacific's subsidiaries and associated companies may incur additional indebtedness over the next few years in connection with ongoing expansion projects and other projects that they may undertake.

First Pacific has limited operations of its own and is dependent on the payment of dividends and management fees by its subsidiaries and associated companies (in particular, PLDT) for revenue and to pay interest, principal and redemption premium, if any, on the Bonds.

As it is principally a holding company with limited operations of its own, First Pacific will depend, to a significant extent, upon the receipt of dividends and management fees from its subsidiaries and associated companies to meet its overhead expenses and to make payments with respect to its obligations, including its obligations under the Guarantee, and in order to provide funds to its other subsidiaries and associated companies. The ability of subsidiaries and associated companies of First Pacific to pay dividends to their shareholders (including First Pacific) is subject to the performance and cash flow requirements of such subsidiaries and associated companies and to applicable law, regulations and restrictions contained in debt instruments of such subsidiaries and associated companies, if any. No assurance can be given that First Pacific will have sufficient cash flow from dividends to satisfy its obligations, including the obligations under the Guarantee or otherwise to enable the Issuer to make payments under the Bonds, or that its subsidiaries and associated companies will pay dividends at all. Moreover, further issues of equity interests by subsidiaries and associated companies of First Pacific could dilute the economic interest of First Pacific in such entities.

Failure by First Pacific, PLDT, MPIC, Indofood and Philex (including their respective subsidiaries or associated companies) to complete or integrate acquisitions successfully may have an adverse effect on First Pacific's results of operations and financial condition.

As an investment holding company with limited operations of its own and as part of its business strategy, First Pacific has acquired and expects to continue to acquire businesses and assets in the Asia Pacific region, which may or may not fall within its current scope of investment holdings. First Pacific has in the past acquired and disposed of significant assets and may decide to make additional strategic acquisitions (or disposals to fund such acquisitions) in the future. First Pacific evaluates acquisition opportunities from time to time and may make acquisitions in the future, if suitable opportunities arise. Similarly, PLDT, MPIC, Indofood and Philex may continue to acquire businesses and assets which may or may not differ from their current core areas of operations.

Furthermore, certain sectors in which First Pacific, PLDT, MPIC, Indofood and Philex invest or operate or may in the future invest or operate are undergoing consolidation, and several parties may compete for a given opportunity. Competitors in respect of these opportunities may have greater financial and other resources, which could reduce the likelihood that desirable acquisitions are completed successfully. In addition, for acquisitions within certain sectors, such as public utilities and services, acquisition bids may be subject to regulatory approval processes, which may not be completed on a timely basis, or at all.

Even if First Pacific, PLDT, MPIC, Indofood and Philex are able to complete future acquisitions, they could fail to successfully integrate the operations, services or assets of acquired companies or assets. These acquisitions could also materially increase costs or liabilities and divert management from its other business concerns. A failure by First Pacific, PLDT, MPIC, Indofood and Philex to integrate new businesses or manage new alliances successfully could materially and adversely affect First Pacific's business, financial condition and performance and results of operations.

Any significant acquisition by PLDT may result in a significant reduction in the amount of cash available for distribution as dividends to its shareholders. This could result in an adverse impact on First Pacific's dividend income, cashflow, results of operations and financial condition.

First Pacific's and any of its subsidiaries' or associated companies' success depends on its ability to maintain its key senior management personnel.

First Pacific, its subsidiaries and its associated companies, such as PLDT and Philex, rely on the expertise and services of key members of their senior management personnel. If First Pacific or any of its subsidiaries or associated companies lose any of these key personnel, First Pacific and/or such subsidiary or associated company may have difficulty finding replacements with similar knowledge and experience and integrating them into the organisation. As a result, First Pacific's growth, results of operations and financial condition could be materially and adversely affected.

First Pacific faces foreign currency exchange rate exposures, not all of which are hedged.

A substantial portion of First Pacific's indebtedness, related interest expenses, capital investments and a portion of its operating expenses are denominated and recorded in U.S. dollars and other foreign currencies, but a significant portion of First Pacific's revenues, derived from the payment of dividends and management fees by its subsidiaries and associated companies, is denominated in pesos and Rupiah.

Since the Asian financial crisis in 1997, the peso has generally depreciated against most foreign currencies. In addition, during this period, the Philippine economy has also, from time to time, experienced periods of concentrated peso devaluation and limited availability of foreign currency. Since 30 June 1997, when the Bangko Sentral ng Pilipinas (the "BSP") announced that it would let market forces determine the value of the peso, the peso has experienced a significant decline against the U.S. dollar. It depreciated from ₱26.38 to US$1.00 as at 30 June 1997, to ₱46.20 to US$1.00 as at 31 December 2009 and has further depreciated to approximately ₱46.37 as at 30 June 2010. The peso has also been subject to significant fluctuations.

The peso may again be subject to significant fluctuations 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;
- any interest rate increases by the Federal Reserve Bank of the United States;
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and
- some banks covering their short U.S. dollar positions.

Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the U.S. dollar and other currencies. Depreciation or volatility of the Rupiah or changes in the Indonesian government's exchange rate policies may result in significantly higher domestic interest rates, liquidity shortages, sovereign and corporate loan defaults, capital or exchange controls and withholding of further financial assistance by multilateral institutions.

Although First Pacific enters into forward contracts to partly hedge against fluctuations between the peso and the U.S. dollar and Rupiah and the U.S. dollar with respect to its dividend income, it does not currently actively hedge against such fluctuations with respect to its book value of investments in the Philippines and Indonesia due to the non-cash nature of such exposures and the high costs associated with any such hedging. There can be no assurance that any hedging activity will be arranged or be effective, and the absence of any cost effective long-term hedging instrument for the peso and Rupiah means that First Pacific would not be able to put in place economically feasible hedges.

Disruptions in the global financial markets or any further downturn in the global economy could have an adverse impact on availability of funding.

The global financial crisis that began in 2008 has adversely affected the United States and other world economies, including Hong Kong, the Philippines and Indonesia. Since the second half of 2008, the global financial markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions, which have originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. These and other events, such as the collapse of a number of financial institutions and the European debt crisis have had and continue to have a significant adverse impact on the global financial markets.

The global financial crisis also resulted in increased volatility and a tightening in credit markets, as well as a lower level of liquidity in many financial markets. Many financial institutions worldwide have tightened lines of credit and reduced the amount of funding available to borrowers. If these conditions continue, worsen or recur, they may adversely affect the availability, terms and cost of borrowing in the future, including any financing necessary to fund First Pacific's, PLDT's, MPIC's, Indofood's and Philex's capital expenditures and refinancing needs. As First Pacific, PLDT, MPIC, Indofood and Philex rely on bank borrowings for a portion of their working capital and capital expenditure requirements and refinancing needs, any disruption in their ability to renew existing credit facilities or obtain new borrowings on acceptable terms may adversely affect their financial condition, results of operations and cash flows.

Also, First Pacific, PLDT, MPIC, Indofood and Philex may be exposed to interest rate risks on any floating rate borrowings and on additional debt financing that may be needed for working capital, acquisitions, capital expenditures and refinancing. Upward fluctuations in interest rates as a result of changing market conditions increase the cost of both existing and new debts. This may adversely impact First Pacific's, PLDT's, MPIC's, Indofood's or Philex's results of operations, planned capital expenditures and cash flows.

The timing and nature of any recovery in worldwide financial markets and the global economy remain uncertain, and there can be no assurance that market conditions will improve in the near future. Although there have been recent signs of a possible economic recovery, there can be no assurance that market conditions will not deteriorate again.

Risks Relating to the Philippines

Substantially all of PLDT's and MPIC's business activities are conducted in the Philippines, which exposes them to risks associated with the Philippines, including the performance of the Philippine economy.

PLDT and MPIC derive substantially all of their revenues and operating profits from the Philippines and their businesses are dependent on the state of the Philippine economy. Demand for telecommunications, water, transportation facilities, electricity and healthcare services are directly related to the strength of the Philippine economy (including overall growth and income levels) and the overall levels of business activity in the Philippines. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls. In addition, global financial, credit and currency markets have, since the second half of 2008, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

Other factors that may adversely affect the Philippine economy include:

- reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
- scarcity of credit or other financing available to the government, corporations or individuals in the Philippines;
- fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- significant changes to the Philippine government's economic, social or tax policies;
- natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;

- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, political or economic developments in or affecting the Philippines.

Any deterioration in economic conditions in the Philippines as a result of these or other factors could materially adversely affect PLDT, MPIC or their respective consumers, customers and contractual counterparties. This, in turn, could materially and adversely affect PLDT's and MPIC's operations, business, financial condition and results of operations and its ability to implement its business strategy.

PLDT's, MPIC's and Philex's business operations in the Philippines are highly regulated.

The telecommunications, water utilities, toll road, electricity distribution and mining businesses in the Philippines are highly regulated and subject to concession, licence or franchise rights granted by regulatory authorities. The businesses of PLDT, MPIC and Philex are currently subject to the following licences, franchises or concessions granted by the following regulatory authorities:

Regulated Business	Regulatory Authority
Telecommunications operations	National Telecommunications Commission
Water utilities operations	Metropolitan Waterworks and Sewerage System/National Water Resources Board
Toll road operations	Toll Regulatory Board
Electricity distribution operations	Energy Regulatory Commission
Mining	Department of Environment and Natural Resources

Continued operation of regulated businesses is dependent on the operator's ability to comply with the operational and maintenance requirements under the concession agreements or the relevant licence and/or franchise agreements. In many cases, granters of concessions may unilaterally terminate concession agreements prior to the expiry of the concession period if a concessionaire does not rectify certain specified defaults by it within any relevant specified cure periods. Accordingly, MPIC's rights to operate and collect revenue from its regulated businesses depend upon its compliance and the terms and conditions of the relevant concession agreements.

The rate structure, allowed returns and permitted cost recoveries are the most significant determinants of regulated businesses' operating results, and are subject to comprehensive regulation pursuant to the franchise, licence and/or concession agreements. Prevailing rates are set (with the approval of regulatory authorities) to permit a reasonable rate of return on investments on the provision of regulated services and may provide for the pass through to customers, on a limited basis, of certain costs resulting from adverse movements in costs, currency exchange rates and, for electricity distribution, system losses. MPIC's results of operations are highly dependent on its ability to set and collect adequate tariffs for their services. Although MPIC may request tariff rate adjustments periodically pursuant to the relevant franchise, licence and/or concession agreements, any rate adjustment requires approval by the relevant regulatory body.

There can be no assurance that MPIC will continue to comply with the terms of their respective licence, franchise and/or concessions or that any rate increase requested by MPIC will be granted in a timely manner, in full or at all. Any of these considerations may have a material adverse effect on MPIC's business, financial condition or operations.

In addition to licence, franchise and concession agreements, PLDT's, MPIC's and Philex's regulated businesses are also subject to the oversight of national and local governments, which are empowered to impose taxes and enact laws and regulations (including those relating to environmental protection and health and safety). PLDT, MPIC and Philex may be required to incur significant costs and expenses in order to comply with these laws and regulations. There can be no assurance that these laws and regulations will not become more stringent in the future or that the costs of compliance will not increase. Failure by PLDT, MPIC or Philex to comply with applicable laws and regulations could result in the imposition of civil or criminal liability, liens, fines, or increased expenditures in order to bring operations into compliance.

In addition, the Philippine Constitution mandates that all franchises granted by the State are subject to the condition that they may be amended, altered or repealed by the Philippine Congress when the common good so dictates. The franchises of PLDT, Smart, a company that handles the cellular business of PLDT, and MPIC relating to its toll road operations are all subject to this condition.

In the case of the toll road operation for the NLEX, the toll operation agreement dated 30 April 1998 among the Philippine government (acting by and through the Toll Regulatory Board) as the grantor (the "Toll Road Grantor"), Philippine National Construction Corporation ("PNCC") as franchisee and Manila North Tollways Corporation ("MNTC" as the "Toll Road Concessionaire") (the "Supplemental Toll Operation Agreement") under which MNTC, a subsidiary of MPIC, holds the exclusive right to finance, design, construct, rehabilitate, expand, operate and maintain the project roads constituting the NLEX as toll roads and to install and collect revenue through a tollway collection system (the "Toll Road Concession Agreement"). The power of Congress to alter, amend and revise the NLEX concession was delegated to the Toll Road Grantor, which can exercise such power when public interest so requires. The grantee of the NLEX concession, MNTC, is afforded certain remedies under the Toll Road Concession Agreement in the event the alteration, amendment or revision of the concession adversely affects the assumptions in the underlying financial projections submitted by MNTC's predecessor-in-interest for the project. There is no certainty that such remedies would adequately compensate MNTC for its investments and loss of opportunity and profits.

Furthermore, in times of national emergency, when the public interest so requires, the Philippine Constitution allows the Philippine government to temporarily take over or direct the operation of any business that affects the public interest. The term "national emergency" has been interpreted to include threat from external aggression, calamities or national disasters and strikes of such proportion as would paralyse government service. Recent jurisprudence has held that, in the event of such a temporary takeover, the Philippine government is not required to compensate the private entity owner of the business, nor may the private entity owner affected by the takeover claim compensation. Any such temporary takeover would have a material adverse effect on PLDT's, MPIC's and Philex's business, financial condition or results of operations.

Further, the interests of First Pacific in the Philippines are subject to legislation limiting foreign ownership. Under the Philippine Constitution, franchises for public utilities and natural resources companies are limited to corporations or associations organised under the laws of the Philippines at least 60% of whose capital is owned by Filipino citizens. Regulations adopted by the SEC in 1972 and the Foreign Investments Act of 1991 (Republic Act No. 7042, or the "FIA") have determined tests for determining the nationality of holding companies and companies engaged in natural resources and public utility businesses with Filipino and foreign investors. First Pacific believes that PLDT, MPIC and Philex qualify as Philippine nationals under the 1972 SEC Rules and the FIA. However, no assurance can be made that challenges will not be made to the status of First Pacific's interests (see "Business of First Pacific — Legal Proceedings — PLDT — The Gamboa Case"), nor that laws or regulations in determining the nationality of corporations or interpretations of such laws or regulations will not be amended or repealed or superceded. If such challenges were successful or such laws or regulations were to be amended in an adverse manner to First Pacific's or repealed, First Pacific's interest in PLDT and MPIC could be adversely affected or, unless appropriate measures are adopted by PLDT and MPIC to comply with the nationality requirements applicable to their businesses (in the case of MPIC, its operating businesses), the ability of PLDT or MPIC to continue operating its partly nationalised businesses could be adversely affected. On the other hand, Philex would not be subject to any nationality restriction if it is able to convert its mining concessions into concessions for large scale exploration and mining pursuant to the Philippine Constitution.

PLDT's, MPIC's and Philex's businesses may be affected by political or social instability in the Philippines.

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

For example, the Philippines has from time to time experienced a number of street protests and violent civil unrest, including *coup détat* attempts against the administration of former President Gloria Macapagal-Arroyo. On 10 May 2010, the Philippines held a presidential election, as well as elections for national (members of the Senate and the Congress) and local positions. This resulted in the election of Benigno Aquino III as the new President of the Philippines, effective 30 June 2010. Although there has been no major public protest of the change in government, there can be no assurance that the political environment in the Philippines will continue to be stable or that the new government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for telecommunications, infrastructure, utilities, mining and natural resource or other companies.

There can also be no assurance that President Aquino will continue to implement the economic and development policies followed by former President Arroyo's administration, including those policies that have a direct effect on the telecommunications, water, transportation facilities, electricity, healthcare and natural resources sectors. Any change in the administration's economic and development policies in these or other respects could have a material and adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition and results of operations.

Acts of terrorism or violent crimes could destabilise the Philippines.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in that part of the country. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines, and adversely affect the country's economy. In addition, PLDT's, MPIC's and Philex's businesses, including telecommunications operations, water utilities operations, electricity distribution operations, toll road operations, healthcare facilities and mining operations, particularly those in Mindanao, could be the strategic targets of or otherwise directly affected by any terrorist activities.

There have also been a number of violent crimes in the Philippines, including the August 2010 incident involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists. High profile violent crimes have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, PLDT's, MPIC's and Philex's businesses.

There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition, and results of operations.

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

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency 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.

There can be no assurance that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect the ability of First Pacific, MPIC and PLDT to obtain foreign currency to service their respective foreign currency obligations.

Fluctuations in the exchange rate between the peso and foreign currencies could have a material adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition and results of operations.

The revenues of PLDT and MPIC and their subsidiaries are predominantly denominated in pesos, while certain payments, including capital expenditures, operating expenses and debt obligations, are denominated in currencies other than the peso, including the U.S. dollar. Accordingly, although PLDT and MPIC may hedge some of their exposure to foreign currency fluctuations, they remain exposed to fluctuations of the peso. A depreciation of the peso against foreign currencies will increase the amount of peso revenue required to pay certain expenses, including capital expenditures, operating expenses and debt obligations that are denominated in foreign currencies. There can be no assurance that the peso will not depreciate significantly against other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Philippine economy. Such depreciation may have a material adverse effect on PLDT's and MPIC's respective business, financial condition and results of operations.

The revenues of Philex are denominated in U.S. dollars, while most of its expenses, including operating costs and expenses, are denominated in pesos. Any appreciation of the peso against the U.S. dollar will increase the amount of U.S. dollar revenue required to fund the peso portion of Philex's operating costs and expenses. Such appreciation may have a material adverse effect on Philex's business, financial condition and results of operations.

The occurrence of natural catastrophes may materially disrupt 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 the PLDT's, MPIC's and Philex's business operations. In particular, droughts caused by El Niño have had an adverse effect on the water supply required by Maynilad for its operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of global climate change. There can be no assurance that PLDT, MPIC and Philex are fully capable to deal with these situations and that the insurance coverage they maintain will fully compensate them for all the damages and economic losses resulting from these catastrophes.

Decreases in government and private sector spending and capital spending may materially and adversely affect MPIC.

Some of MPIC's businesses, including its water utilities business, electricity distribution business and toll road operations, are directly affected by changes in government and private sector spending and financing for infrastructure projects. Economic downturns may lead to decreases in the development of new infrastructure projects, as well as delays or cancellations of major infrastructure projects. Accordingly, reduction in available government and private sector spending and financing for infrastructure projects may have a material and adverse effect on MPIC's business, financial condition and results of operations.

Risks Relating to Indonesia

Indofood's financial performance may be affected by adverse economic conditions in Indonesia.

Indofood's performance is necessarily dependent on the overall health of the Indonesian economy. Following the Asian economic crisis in 1997, Indonesia was in a recessionary phase with relatively low levels of economic growth until 2002 and had started to recover until 2007. The global financial crisis that began in 2008 had significant impact on certain segments of the Indonesian economy as well as the stability of Indonesian financial markets. Any worldwide financial market instability could have a negative impact on the Indonesian economy, which could have an adverse effect on Indofood's business, financial condition, results of operations and prospects.

Indofood's financial performance may be affected by adverse political and social conditions and acts of terrorism.

Indonesia has experienced political instability and social and civil unrest since the onset of the 1997 Asian financial crisis. In 1999, Indonesia successfully conducted its first free elections for parliament and president. As a new democratic country it still faces various problems, including conflicts between political factions within the Indonesian government, conflicts between regional authorities and the central government, friction between civilian and military institutions, civil disturbances, social unrest, labour unrest and activism, clashes between religious and ethnic groups, various armed separatist uprisings and, most recently, terrorism-linked attacks on foreign tourists and consular facilities.

On 12 October 2002, a bombing occurred at a tourist area in Bali, a region of Indonesia previously considered safe from the unrest affecting other parts of the country. Indonesian and U.S. government officials have indicated that this bombing may be linked to the al-Qaeda terrorist network. On 27 April 2003, a bombing occurred in the departure lounge of Jakarta's Soekarno-Hatta International Airport. On 5 August 2003, a bomb exploded at the JW Marriott Hotel in Jakarta and on 9 September 2004, a bomb exploded outside the Australian embassy in Jakarta. On 1 October 2005, bombs exploded in three restaurants in Bali.

The Indonesian government has attempted to address unrest in troubled areas with limited success. Partly as a consequence of such instability and unrest, Indonesia has had four different Presidents since 1998. There can be no assurance that such instability and unrest will not increase or re-emerge in the future, although parliamentary elections proceeded smoothly in 2004 and 2009, when Indonesia successfully held its democratic presidential election. Such instability and unrest has had in the past, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy, and in turn Indofood's business.

Depreciation in the value of the Rupiah may materially and adversely affect Indofood's results of operations and cash flows.

Indofood's functional currency is the Rupiah but a proportion of its raw material costs and indebtedness are denominated in U.S. dollars and other foreign currencies. Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the U.S. dollar and other currencies. Changes in exchange rates have affected and may continue to affect Indofoods' results of operations and cash flows. For example, a depreciation of the Rupiah against the U.S. dollar or other international currencies may increase the cost of Indofood's raw materials, which is often tied to international markets, and costs of goods sold. With no active hedging activity, and limited natural hedging, against fluctuations between the Rupiah and the U.S. dollars, a depreciation of the Rupiah may materially and adversely affect Indofood's financial condition, results of operations and cash flows.

There can be no assurance that the Rupiah will not depreciate significantly against other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Indonesian economy.

The occurrence of natural catastrophes may materially disrupt Indofood's operations.

Indonesia has experienced a number of major natural catastrophes over the years, including a tsunami in 2004, numerous earthquakes that have occurred in Yogyakarta, various cities in Sulawesi, Manokwari and Padang and floods as well as El Niño, that may materially disrupt and adversely affect Indofood's business operations, in particular its plantation operations. There can be no assurance that Indofood will be able to deal with such situations and that the insurance coverage Indofood maintains for these risks will adequately compensate Indofood for all damage and economic losses resulting from natural catastrophes.

Risks Relating to the Security

Enforcement of the Security may be subject to uncertainties relating to foreign ownership limitations under Philippine laws and regulations, certain material contracts and agreements, and enforcement procedure.

The ability of the Bondholders to enforce the Security is subject to uncertainties, including the following:

- The ownership and transfer of PLDT Shares is subject to applicable Philippine laws relating to foreign ownership;

- Certain material contracts and agreements of PLDT or its stockholders contain provisions restricting the ownership, control or transfer of the PLDT Shares; and

- The enforcement procedure pursuant to the Share Pledge may be time-consuming and difficult.

The ownership and transfer of the PLDT Shares are subject to foreign ownership limitations under Philippine laws and regulations and certain material contracts and agreements. In particular, the FIA provides that only "Philippine Nationals" may invest in certain sectors and assets designated by the Philippine Constitution and specific laws of the Philippines. The term "Philippine Nationals" is defined to include citizens of the Philippines and corporations organised under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned by citizens of the Philippines. Additionally, the FIA states that where a corporation and its non-Filipino shareholders own shares of stock in an enterprise registered with the Philippine Securities and Exchange Commission, at least 60% of the capital stock outstanding and entitled to vote of both the investing corporation and the investee corporation must be owned and held by citizens of the Philippines, and at least 60% of the members of the board of directors of both the investing corporation and the investee corporation must be Philippine citizens in order for the investee corporation to be considered a Philippine national. Such limitations on foreign ownership may limit the liquidity of the PLDT Shares upon enforcement of the Security.

With respect to the Share Pledge, under Philippine law, a pledge must generally exercise its rights over secured property by public auction and may only appropriate the secured property following two failed public auctions. Such enforcement procedure may be time consuming and difficult.

The proceeds of enforcement of the Charged Property may be insufficient for Bondholders to recover the principal, interest and any other amounts payable under the Bonds.

The security for payment on the Bonds includes the Share Pledge with respect to the PLDT Shares and any Additional PLDT Collateral. If the Issuer or First Pacific fails (for whatever reason) to redeem or pay interest or other amounts on the Bonds, the Bondholders may have to rely on the realisation of the Charged Property. The proceeds of the realisation of the Security depend upon the market value of such Charged Property, including the market value of the PLDT Shares and any Additional PLDT Collateral, the U.S. dollar to peso exchange rate at the time such Charged Property are sold, at the time of realisation and the ability to dispose of the same to willing purchasers.

The future market value of the PLDT Shares may fluctuate and decline due to a number of factors, including PLDT's performance. Any realisation upon enforcement of the Share Pledge would likely involve a significant amount of PLDT Shares. The sale of a large number of PLDT Shares in a short period of time may have an adverse effect on the prevailing market price. As a result, the proceeds resulting from the realisation of the PLDT Shares may be insufficient for Bondholders to recover the principal, interest and any other amounts payable under the Bonds.

In addition, the Trust Deed provides that, upon enforcement of the Security, certain fees and expenses will be paid in priority to payments due in respect of interest or principal of the Bonds outstanding. Any net amount realised from the enforcement of the Security will, subject to payment of the prior ranking fees and expenses, be shared between the Bondholders in accordance with the order of priorities set out in the Trust Deed.

Enforcement in the Philippines of judgments obtained in foreign courts may be difficult.

Bondholders may experience difficulty in enforcing in the Philippines any judgments obtained in a foreign court with respect to the Share Pledge or the PLDT Shares, which are governed by Philippine law. A judgment rendered against a party by a foreign court may be enforced in the Philippines by filing an action in a Philippine court, but such judgment may be rejected by evidence that (i) such foreign court did not have jurisdiction in accordance with the rules of such court, (ii) the party against whom the judgment is sought to be enforced had no notice of the proceedings, or (iii) the judgment of such foreign court was obtained through collusion or fraud or was based on clear mistake of law or fact.

Volatility and illiquidity in securities markets may affect the value of the Charged Property.

The relative volatility and illiquidity of the securities markets may substantially limit the Security Trustee's ability to sell the Charged Property at a suitable price or at a time it desires. The Philippine securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The market price of securities can and does fluctuate, and it is impossible to predict whether the price of the Charged Property will rise or fall. An individual security may experience upward or downward movements, and may even lose all of its value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities. Trading prices of the Charged Property will be influenced by, among other things, PLDT's financial position, its results of operations, and political, economic and other factors.

The priority of the Security Trustee's security interest in the Security may be affected by the laws of a number of jurisdictions.

The laws of a number of jurisdictions may affect the Security Trustee's priority in the Security, including (i) the British Virgin Islands, where the Issuer is incorporated; (ii) the Philippines, the governing law of the Share Pledge and the place of incorporation of PLDT and PTIC; and (iii) England, the governing law of the Trust Deed and the Agency Agreement. No assurance can be given that the laws of the different jurisdictions in relation to the offering of the Bonds may not delay or prevent the enforcement of the Security.

The PLDT Shares subject to the Share Pledge may not be listed in the future.

PLDT's common shares are currently listed on the Philippine Stock Exchange ("PSE") and its American Depositary Shares are listed on the New York Stock Exchange. However, PLDT is not obliged to maintain such a listing. If the Philippine listing is not maintained, if trading is suspended for whatever reason or the related securities are de-listed, there would likely be no significant trading market for PLDT's shares, including the PLDT Shares subject to the Share Pledge, and the market price of the Bonds in secondary transactions may also be materially affected.

The Trustee may decline to take actions requested by the Bondholders

In certain circumstances (including the giving of notice to the Issuer and First Pacific pursuant to Condition 10 (*Events of Default*)), the Trustee may (at its sole discretion) request the Bondholders to provide an indemnity and/or security to its satisfaction before it takes actions on behalf of the Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured to its satisfaction. Even if the Bondholders agree to indemnify and/or provide security to the Trustee, the time taken to agree the indemnity and/or security may impact on when such actions are taken.

The Trustee may decline to take action requested by the Bondholders, notwithstanding the provision of an indemnity or security to it, where it is not satisfied that the action is permitted by the terms of the Trust Deed or applicable law.

Risks Relating to an Investment in the Bonds

There is currently no active trading market for the Bonds.

The Bonds are a new issue of securities for which there is currently no trading market. The Bonds are being offered pursuant to an exemption from registration under the Securities Act, and, as a result, an investor will only be able to resell the Bonds in transactions that are not subject to, or exempt from registration under, the Securities Act. The Issuer cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds trade at lower prices depends on many factors, including:

- the number of holders of the Bonds;
- adverse economic developments in Hong Kong, the Philippines, Indonesia and other countries where First Pacific, PLDT, MPIC, Indofood and Philex have operations;
- political, economic, financial and any other factors that could affect the capital markets generally;
- developments in, and changes in securities analysts' recommendations regarding the industries in which First Pacific, PLDT, MPIC, Indofood and Philex operate; and

- the financial condition, historical financial performance and future prospects of First Pacific, PLDT, MPIC, Indofood and Philex.

If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could be materially and adversely affected. An application has been made for the listing of the Bonds on the SGX-ST. However, there can be no assurance that the Issuer will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the exchange, or as to the liquidity or sustainability of any such market. The Issuer does not intend to apply for listing of the Bonds on any securities exchange other than the SGX-ST. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

Risks Relating to the Telecommunications Business

PLDT faces strong competition and may need to increase its marketing expenditures or reduce its rates in order to compete effectively.

The Philippine government has liberalised the Philippine telecommunications industry and opened up the Philippine telecommunications market to new entrants. Including PLDT, there are currently four major local exchange carriers ("LECs") and three major cellular mobile telephone system providers in the Philippines. PLDT is facing increasing competition in major segments of the telecommunications industry, particularly in the cellular, local exchange and data and other network services segments. There can be no assurance that the number of providers of cellular and fixed lines telecommunication services will not increase, or that competition for telecommunications customers will not result in PLDT's cellular and fixed line subscribers switching to other operators, or PLDT increasing its marketing expenditures or reducing its rates; any of which could result in a reduction in PLDT's profitability.

The cellular telecommunications industry in the Philippines has been particularly competitive, as operators have sought to develop and maintain revenue market share and to attract new subscribers. Competitive pressures on Smart's cellular rates may affect its cellular revenues and revenue growth. There can be no assurance that these marketing expenses, rate pressures and potential loss of customers will not have a material adverse effect on PLDT's financial performance.

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

Smart has publicly stated that it believes that it had 10 years from the commencement of its operations, or until August 2004, to conduct a public offering of its shares required under the Public Telecommunications Policy Act (Republic Act No. 7925, or "R.A. 7925"). As Smart has not conducted a public offering of its shares by August 2004, the Philippine Congress may revoke the franchise of Smart for 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. In September 2004, Senate Bill No. 1418 was filed seeking to amend Section 21 of R.A. 7925. The bill sought 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. Since the 13th Philippine Congress, in which Senate Bill No. 1418 was filed, has already adjourned, it will have to be re-filed before it can be passed into law. There is no certainty that Senate Bill No. 1418 will be re-filed in the current Philippine Congress. If the Senate Bill No. 1418 is not re-filed and passed into law in the current Philippine Congress, there can be no assurance that the Philippine Congress will not revoke the franchise of Smart for failure to comply with the requirement under R.A. 7925, which in turn will have a material adverse effect on the business, financial condition and the results of operations of Smart and PLDT.

PLDT's 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 pressure on, PLDT's traditional international and national long distance services.

The international long distance business has historically been one of PLDT's major sources of revenue. However, due to competition and the steep decline in international settlement rates that are paid to PLDT by foreign telecommunications carriers for termination of international calls on PLDT's network, revenues generated from PLDT's international long distance business have declined in recent years.

PLDT anticipates that revenues from international long distance services will continue to decline in the future primarily due to:

- advances in technology coupled with increased personal computer and broadband penetration in the Philippines and abroad resulting in the emergence of Voice over Internet Protocol ("VoIP") providers such as Skype, Vonage and Magic Jack;

- presence of alternative means of communications through short messaging service ("SMS"), free web-based e-mail services (e.g., gmail, yahoo mail), and social networking sites;

- offering of unlimited calling promotions in the domestic/local market, opening up a big opportunity to bypass international settlement; and

- unauthorised traffic termination and bypass routing by international simple retail operators.

The continued increase in cellular penetration in the Philippines, offering of unlimited calling plans and the prevalence of SMS has negatively impacted PLDT's national long distance business in recent years.

Although revenues from data and other services have grown significantly in recent years compensating for declines in PLDT's traditional fixed line businesses, there can be no assurance that PLDT will be able to generate new revenue streams that may fully offset the declines in its traditional fixed line long distance businesses or that these declines will not materially and adversely affect PLDT's financial performance.

Rapid changes in telecommunications technology may adversely affect the economics of PLDT's existing businesses and the value of its assets, increase PLDT's required capital expenditures and create new competition.

The telecommunications sector has been characterised by recent rapid technological changes. There can be no assurance that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade PLDT's facilities. For example, the National Telecommunications Commission (the "NTC") has issued to Smart's and PLDT's competitors licences covering 3G cellular services, and PLDT as a result has made significant investments to respond to this new competition. PLDT is also continuing to upgrade its fixed line network to a next generation, all-internet protocol network and is also rolling out a wireless broadband network in order to expand its broadband capabilities. These projects require and will continue to require significant capital expenditures over the next few years.

PLDT's future success will depend, in part, on its ability to anticipate or adapt to further changes in the industry and to offer services that meet customer demands on a competitive and timely basis. PLDT may be unable to obtain new technologies on a timely basis or on satisfactory terms, or implement these technologies in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to PLDT's business model, negatively impact its existing businesses, require new investments and result in increased competition. There can be no assurance that PLDT would be able to adopt and successfully implement any new technologies and there can be no assurance on how emerging and future technological changes will affect PLDT's operations or the competitiveness of its services.

The cellular telecommunications industry may not continue to grow or may grow at a slower rate.

The majority of PLDT's consolidated revenues is derived from its cellular services. As a result, PLDT depends on the continued development and growth of the cellular telecommunications industry to maintain its growth. As at 30 June 2010, the cellular penetration rate in the Philippines was estimated to have reached approximately 90%, counting multiple subscriber identity module, or SIM, card ownership. As a result, PLDT's cellular business may not continue to grow at the same rate as in previous years as Smart further penetrates the lower-income segments of the market. In addition, the growth of the cellular communications market generally depends on many factors beyond PLDT's control, including the continued introduction of new and enhanced cellular devices, as well as consumer preferences. The failure of PLDT to continually grow its cellular business, or any economic, technological or other developments resulting in a reduction in demand for cellular services, may have an adverse effect on PLDT's business.

PLDT's debt instruments contain restrictive covenants which require it to maintain certain financial tests and PLDT's indebtedness could impair its ability to fulfill its financial obligations, service its other debt and carry out new financings.

As at 31 December 2009 and 30 June 2010, PLDT had consolidated total indebtedness of ₱98.7 billion and ₱93.4 billion, respectively, 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 1.0 times as at both 31 December 2009 and 30 June 2010. PLDT's 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 PLDT's ability to incur indebtedness.

PLDT's indebtedness and the requirements and limitations imposed by its debt covenants could have important consequences. For example, they could require PLDT to dedicate a substantial portion of its cash flow to payments on its indebtedness, thereby reducing the availability of PLDT's cash flow to fund working capital, capital expenditures, dividend payments to shareholders and other general corporate requirements.

The principal factors that could negatively affect PLDT's ability to comply with the financial ratios and other financial tests under its debt instruments are: depreciation of the peso relative to the U.S. dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognised by PLDT and its subsidiaries, and increases in PLDT's interest expenses. As at 31 December 2009 and 30 June 2010, approximately 46% and 47%, respectively, of PLDT's total consolidated debts was denominated in foreign currencies, principally in U.S. dollars. As a result, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the peso.

PLDT has maintained compliance with all of its financial ratios and covenants, as measured under PFRS, under its loan agreements and other debt instruments. However, if negative factors adversely affect PLDT's financial ratios, it may be unable to maintain compliance with these ratios and covenants and consequently be unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing could also result in a declaration of default and acceleration of maturities of some or all of PLDT's indebtedness. The terms of some of PLDT's debt instruments have no minimum amount for cross-default.

If PLDT is unable to meet its debt service obligations or comply with its debt covenants, it could be forced to restructure or refinance its indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of PLDT's indebtedness.

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

A growing portion of PLDT's total revenues and cash flow from operations is derived from its subsidiaries, particularly Smart. Smart and certain of PLDT's other subsidiaries have 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 since December 2002, there can be no assurance that PLDT will continue to receive dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of PLDT's subsidiaries will have priority claims over those subsidiaries' assets and cash flows. PLDT and its creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of PLDT's subsidiaries, except that PLDT may be recognised as a creditor with respect to loans it has made to subsidiaries. If PLDT is recognised as a creditor of a subsidiary, its 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 PLDT holds.

PLDT may have difficulty in meeting debt payment obligations if it does not continue to receive cash dividends from its subsidiaries and its financial condition and results of operation could be materially and adversely affected as a result.

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

If the First Pacific group and NTT Communications Corporation sell 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 US$250 million 11.375% notes due 2012. As at both 31 December 2009 and 30 June 2010, approximately ₱6.8 billion 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.

PLDT's business is significantly affected by governmental laws and regulations, including regulations in respect of its franchises, rates and taxes.

PLDT operates its 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 certificates of public convenience and necessity ("CPCNs") which were granted by the NTC and will expire between now and 2028. Some of PLDT's CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decisions on these extensions.

Because PLDT filed the applications for extension on a timely basis, PLDT has publicly stated it expects that these extensions will be granted. However, there can be no assurance that the NTC will grant these extensions. If a CPCN has not been issued, the NTC may permit an operator to provide services pursuant to a provisional authority. 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 licence 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. However, there can be no assurance that PLDT's franchises, CPCNs and provisional authorities will be renewed.

On the other hand, Smart 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.

The NTC also regulates the rates PLDT is permitted to charge for services that have not yet been deregulated, such as local exchange services. The NTC could impose additional obligations on PLDT that could lead to the revocation of its licences if not adhered to and/or reduction in its total revenues or profitability. In addition, the NTC could adopt changes to the regulations governing PLDT's interconnection with other telecommunications companies or the rates and terms upon which PLDT provides services to its customers that could have a material and adverse effect on its results of operations.

The PLDT group is also subject to a number of national and local taxes. There can be no assurance that the PLDT group will not be subject to new and/or additional taxes and that the PLDT group would be able to impose additional charges or fees to compensate for the imposition of such taxes.

There were bills filed with the Philippine Congress which proposed to impose a franchise tax on telecommunication companies and 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 ₱0.50 specific tax on each SMS to be borne by the cellular phone companies; imposition of a 10% ad valorem tax on all cellular phone calls using 3G; the prohibition on telecommunications companies from imposing fees and/or charges on text messages between subscribers of the same telecommunications company and providing for free text messages until the prepaid amount has been fully used up; and the imposition of an additional ₱0.05 tax on text messaging charges. In addition, there was a bill which sought to impose on telecommunications companies a 20% tax on gross receipts from text messaging services for a period of five years, where the proceeds of such tax would be used to fund educational projects. If bills of this nature were in the future enacted into law, such legislation would have a material and adverse impact on PLDT's results of operations and financial condition. There can be no assurance that PLDT 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.

Risks Relating to the Infrastructure Business

MPIC may experience difficulties managing its existing investments and its growth.

MPIC has rapidly expanded its portfolio of infrastructure assets over the past few years. MPIC acquired its interest in its water utilities business beginning in 2006, its toll road business in 2008, its healthcare facilities in stages from 2007 to 2010, and has recently acquired and streamlined its interest in the Meralco, the largest private sector electricity distribution utility in the Philippines. This rapid expansion into new business sectors has presented, and will continue to present, significant challenges for MPIC's management, operational and administrative systems and its ability to maintain effective systems of internal controls. MPIC will have to continue to train new personnel and expand and improve its management, operational, administrative and financial control and auditing systems relating to new businesses or expansion of existing businesses. There can be no assurance that MPIC will not experience difficulties in managing its existing investments and growth. If MPIC fails to develop and maintain its management, administrative and internal control systems, as well as other resources, its business, financial condition and results of operations could be materially and adversely affected.

A part of MPIC's long-term strategy is to expand its water supply, toll roads and electricity distribution operations to other locations outside the areas in which it currently operates. Expanding into such new locations will depend on MPIC's ability to obtain the necessary permits, licences and approvals to operate in new territories in a timely and cost-effective manner.

Failure to obtain financing on reasonable terms could affect the execution of MPIC's growth strategies; increased debt financing may have a material adverse effect on MPIC.

MPIC's ability to make strategic investments and acquisitions (including the ongoing discussions for a toll road connecting the NLEX to the SLEX and to increase its equity interest in Citra Metro Manila Tollways Corporation ("Citra Tollways") and the plan to accomplish its growth strategy outside of Maynilad's and Meralco's current operating areas) may depend on satisfactory risk and return analysis, obtaining the necessary concessions as well as external fund raising activities, including debt and equity financing. MPIC's ability to raise additional equity financing from non-Philippine investors is subject to prevailing market risks and foreign ownership restrictions imposed by the Philippine Constitution and applicable laws. MPIC's access to debt financing for new projects and acquisitions and to refinance maturing debt is subject to many factors, some of which are outside of MPIC's control. For example, political instability, economic downturns, liquidity of the U.S. dollar and peso debt capital markets and the banking market, social unrest or changes in MPIC's regulatory environment could increase MPIC's cost of borrowing or restrict MPIC's ability to obtain debt financing. MPIC cannot guarantee that it will be able to arrange financing on acceptable terms, if at all. The inability of MPIC to obtain debt financing from banks and other financial institutions would adversely affect its ability to execute its growth strategies or refinance maturing debt.

The volume of raw water available to Maynilad may be limited and may not increase to satisfy expected increases in water demand.

Various factors may limit the volume of raw water available to Maynilad, and, accordingly, the volume of water available may not increase in line with increases in water demand. These factors include, among others, the level of water in the MWSS reservoirs, the condition of the MWSS reservoirs and dams, the development of new water supply projects undertaken by MWSS and the terms of the permits issued to MWSS by the National Water Resources Board (the "NWRB") that limit the amount of water that MWSS may extract from its reservoirs. In addition, drought, changing weather patterns and other circumstances may result in major shortages in Maynilad's water supply. For example, in 2004 heavy rainfall associated with two typhoons caused landslides which damaged the MWSS system and resulted in the NWRB temporarily reducing Maynilad's water supply by 10%. In 1997, a strong El Niño weather event caused a severe drought and significantly decreased Maynilad's water supply. El Niño is a disruption of the ocean-atmosphere system in the tropical Pacific that impacts global weather patterns, including weather in the Philippines, and usually recurs every five to seven years. In 2010, due to a shortage of water, Maynilad is receiving less water than it is entitled to under its concession. Droughts, including those caused by El Niño, will continue to be a fundamental threat to Maynilad's water supply.

Maynilad's results of operations could be materially affected if it is unable to reduce non-revenue water.

NRW refers to the volume of water lost in Maynilad's distribution system due to leakage, theft from illegal connections and metering errors. During the year ended 2009, Maynilad's average NRW was approximately 60%, and during the six months ended 30 June 2010, Maynilad's average NRW was approximately 55%. As approved by the regulatory office (formed pursuant to the terms of a water utilities concession agreement dated 21 February 1997 (the "Water Utilities Concession Agreement")) (the "Regulatory Office"), Maynilad's annual NRW target is 40% for 2012 and 30% for 2017 and through to the expiration date of the water concession. Due to an extension of the expiration date of the water concession, the NRW targets were further adjusted from 30% for 2021 to 20% for 2031. The 20% NRW target is then to be maintained until 2037. If Maynilad does not meet these targets, it could be subject to penalties under the Water Utilities Concession Agreement with the MWSS. Maynilad intends to reduce NRW by, among other methods, improving Maynilad's billing system, replacing meters for commercial and high-usage customers, undertaking comprehensive leak repairs, reducing illegal connections, servicing pipe replacements and rehabilitating distribution lines.

A variety of factors affect Maynilad's ability to reduce NRW, including inability to obtain government approvals, licences and/or permits necessary to replace aging infrastructure and to construct new connections, lack of funding for required capital expenditures, leakage as the system continues to age and increased theft from illegal connections as demand and tariff rates increase. If Maynilad does not continue to significantly reduce NRW, as it has done in the past, this could materially and adversely affect MPIC's business, financial condition and results of operations.

Maynilad has substantial liquidity and capital resource requirements, and failure to obtain new financing could have a material adverse effect on MPIC's business, financial condition and results of operations.

The water utilities and sewerage facilities located in the West Zone need further rehabilitation and expansion, which will require extensive capital expenditure by Maynilad. Maynilad has designed and planned various new projects to improve water and wastewater services and meet its service obligations under the Water Utilities Concession Agreement. In addition, the Water Utilities Concession Agreement requires Maynilad to continue MWSS-funded projects, as well as to undertake projects on its own.

There can be no assurance that Maynilad will be able to obtain sufficient funds at acceptable rates, or at all, to complete its planned projects and pay future water concession fees to MWSS or satisfy its other liquidity and capital resources requirements. Failure to obtain the requisite funds could delay or prevent completion of projects, lead to termination of the water concession and materially and adversely affect MPIC's business, financial condition and results of operations.

Liability for water supply contamination could result in material losses and costs.

Maynilad's business, the supply of water to end-users in particular, is subject to the risk of water supply contamination which could result in disease, death or otherwise endanger the public health. As a result of contamination, Maynilad may have to interrupt the supply of water to its customers until it can install treatment equipment or substitute the flow of water from an uncontaminated water source. If Maynilad's water supply becomes contaminated, it could be subject to civil, criminal or regulatory enforcement actions, private lawsuits and expensive cleanup obligations. There can be no assurance that Maynilad's water supply is or will always be in compliance with the water quality standards of the Philippine National Standard for Drinking Water set by the Department of Health.

Maynilad's inability to substitute water supply from an uncontaminated water source, or to adequately treat a contaminated water source in a cost-effective manner, could materially and adversely affect MPIC's business, financial condition and results of operations.

Maynilad may no longer be able to avail itself of an income tax holiday it has historically enjoyed.

Maynilad is registered with the Philippine Board of Investments (the "BOI") as a "pioneer enterprise" under the Omnibus Investments Code of 1987 as a result of its status as the operator of water utilities in the West Zone. As a registered enterprise, Maynilad is entitled to certain tax and non-tax incentives, including an income tax holiday.

Maynilad's initial income tax holiday expired on 31 December 2009. The BOI recently granted Maynilad a new income tax holiday through 2015 and as well as an income tax holiday on Maynilad's proposed 300 million litres per day ("MLD") treated bulk water supply project in Putatan, the Philippines. There is no guarantee that Maynilad will continue to enjoy its tax holidays as it has in the past or at all. If the BOI does not renew its current incentive under similar terms or at all and/or grant the new incentive, Maynilad's tax expenses will increase.

MPIC's Toll Road Concession is subject to a challenge in the Supreme Court of the Philippines.

The validity of the Supplemental Toll Operation Agreement under which MPIC, through its subsidiary MNTC, holds the exclusive right to finance, design, construct, rehabilitate, expand, operate and maintain the project roads constituting the NLEX as toll roads and to install and collect revenue through a tollway collection system and other agreements that are material to the Toll Road Concession, as well as other similar agreements relating to toll concessions held by a number of other operators in the Philippines, have been challenged by two petitions lodged in the Supreme Court of the Philippines. If the petitioners' claims are granted or if the Supreme Court otherwise determines that the Toll Road Concession Agreement and the related agreements are invalid, the business, financial condition and results of operations of MPIC could be materially and adversely affected.

A decrease in traffic volumes, capacity limits, toll rates and toll collected on the NLEX may adversely affect MPIC's toll road operations.

Revenues from MPIC's toll road operations principally depend upon the number and type of motor vehicles using the NLEX. Traffic volume is directly and indirectly affected by a number of factors, including the availability, quality, proximity and cost of alternative roads (including non-toll roads) and alternative modes of transportation and government economic and transportation policies. More generally, traffic volumes on the NLEX depend to a large extent on the continued economic growth and development of the Philippines and, in particular, Metro Manila and the special economic zones of Subic and Clark.

Traffic volumes on the NLEX are also influenced by traffic volumes on expressways, highways and other roads which are part of the regional highway system and network. There can be no assurance that changes in this highway system and network, in particular in Metro Manila or the special economic zones of Subic and Clark, will not adversely affect traffic volume on the NLEX. For example, significant construction projects in Metro Manila, neighboring roads, highways or expressways could adversely impact traffic volume on the NLEX.

Capacity limits may also affect MPIC's revenues from toll road operations. There are limits to the number of vehicles that can efficiently use the NLEX in any given period. At certain interchanges in the Metro Manila region, the need for a toll plaza at the entrance to the expressway may, during periods of high congestion, create a bottleneck restricting traffic flow onto the expressway and limiting traffic volumes of paying customers. High levels of traffic congestion could result in customer dissatisfaction and reduce the volume of toll-paying motorists.

MNTC derives substantially all of its revenue from toll collections from the users of the NLEX. The Toll Road Concession Agreement establishes a toll rate formula and adjustment procedure for setting the "Authorised Toll Rate", the maximum authorised amount that can be assessed upon toll users. The Toll Road Concession Agreement also provides for both regular adjustments every two calendar years and interim adjustments to the Authorised Toll Rate in certain circumstances, particularly significant changes in the Philippines consumer price index. However, no assurance can be given that adjustments to the Authorised Toll Rate will be made at the times or in the amounts contemplated by the Toll Road Concession Agreement or will be favorable to MNTC or MPIC.

The receipt of toll revenue is highly dependent upon the integrity of MNTC toll collection system. Most of the toll revenues collected on the NLEX are collected in cash, as opposed to through cashless electronic collection systems. The level of revenues derived from the collection of tolls may be reduced by leakage through toll-evasion, fraud or technical faults in MNTC's toll collection systems. MNTC has established policies and procedures designed to prevent such leakage, including the prevention of toll-evasion, user fraud, employee fraud and theft. However, there can be no assurance that these policies and procedures will be effective.

The occurrence of any of the above situations could have a material adverse effect upon MPIC's business, financial condition and results of operations.

MNTC may encounter difficulties in funding future capital requirements, including the expansion and maintenance of the NLEX.

The Toll Road Concession Agreement contemplates the development of a regional highway network in the region north of Metro Manila in phases. The first phase was initiated in March 2001 and was completed in February 2005. Pursuant to the Toll Road Concession Agreement, MNTC, under certain specified conditions, is obligated to participate in the further expansion of the project roads. The obligation to commence construction on a given phase or segment is subject to compliance with certain requirements, including the delivery by the Toll Road Grantor of the land required and actual access and possession by MNTC of the land required, ready for fencing and construction, and proof of availability of funds. Work on the first segment of Phase II, an extension spanning a total of 2.7 kms, began in April 2009 and was completed in June 2010.

Any future construction obligations arising under the Toll Road Concession Agreement may require significant capital expenditures for the funding of roadway construction costs, the development of toll facilities and amenities, and related costs. MNTC is obligated under the Toll Road Concession Agreement to maintain the toll roads it operates including both routine and heavy maintenance and repairs.

There can be no assurance that MNTC will have sufficient cash flow or be able to obtain third party financing necessary to finance MNTC's construction and maintenance obligations. If MNTC were unable to obtain financing for its future capital expenditures, it may have difficulty meeting its construction and maintenance obligations under the Toll Road Concession Agreement. In certain cases, the inability of MNTC to meet these obligations is a default under the Toll Road Concession Agreement, which could cause MPIC's business, financial condition and results of operations to be materially adversely affected.

MNTC may be subject to the prospective assessment of value added taxes on toll revenues.

In September 2005, the Philippine Secretary of Finance, acting through the Bureau of Internal Revenue (the "BIR"), issued a Revenue Memorandum Circular that for the first time expressly identified toll road operations as subject to a 10% value added tax ("VAT") (which has been adjusted to the current rate of 12%). At the direction of the Toll Regulatory Board ("TRB"), MNTC and other toll road operators in the Philippines deferred the imposition of VAT on toll fees collected from motorists ("output VAT"). In 2010, the BIR issued several Revenue Memorandum Circulars reiterating its position that toll fees are subject to VAT. A technical working group comprised of BIR, TRB and toll road operators was formed and agreed to a prospective implementation of VAT effective 16 August 2010. Following discussions carried out by technical working group, the BIR issued Revenue Memorandum Circular No. 63-2010, outlining the agreements reached, including the permission granted to toll road companies to apply for an abatement for VAT assessments covering taxable periods prior to 16 August 2010. However, on 13 August 2010, the Supreme Court of the Philippines issued a temporary restraining order in response to a petition filed against the implementation of VAT on toll fees. As of the date of this Offering Circular, the Supreme Court of the Philippines has yet to make its determination on this matter. In the event that the Supreme Court of the Philippines upholds Revenue Memorandum Circular No. 63-2010, MNTC will be obligated to collect VAT by passing on to its motorists an additional 12% tax on top of the existing toll fees and could reduce traffic flow on the toll roads and in turn may cause MPIC's business, financial condition and results of operations to be materially adversely affected.

MNTC has benefitted from an income tax holiday that may not be renewed.

MNTC is registered with the Board of Investments as a "pioneer enterprise" under the Omnibus Investments Code of 1987, as a result of its status as the operator of the NLEX. As a registered pioneer enterprise, MNTC is entitled to certain tax and non-tax incentives, including an income tax holiday incentive. In July 2009, the BOI granted MNTC's request for an extension of the income tax holiday. As a result, MNTC's income tax holiday is currently scheduled to expire at the end of December 2010. If these incentives are not renewed, MNTC's tax expenses will increase significantly.

Meralco is dependent on third-party suppliers of electricity.

Although Meralco intends to expand into electricity generation in the future, it does not currently operate its own electricity generation facilities and depends on third-party suppliers for all of the power it distributes. In particular, Meralco purchases significant quantities of the electric power it distributes from National Power Corporation ("NPC") under a transition supply contract and from independent power producers. There can be no assurance that Meralco's current power generation sources will continue to supply electricity in amounts sufficient to satisfy present demand or future growth in demand for electric power.

The Philippine power industry is undergoing restructuring.

Under the Philippine Electric Power Industry Reform Act of 2001, the Philippine power industry is undergoing a fundamental restructuring, which has required, and will continue to require, significant changes in Meralco's business, including:

- the deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- the privatisation of the NPC's power generation assets and independent power producers contracts;
- the unbundling of the costs constituting the power supply chain and the reflection of these separate costs in the bills provided to consumers;
- the freedom of customers to choose among electricity suppliers;
- subject to certain conditions, the open and non-discriminatory access in the networks of distribution utilities;
- the implementation of a wholesale electricity spot market; and
- the removal of inter-grid, intra-grid and inter-class cross subsidies.

These and other risks or uncertainties, alone or in combination, could have a material and adverse effect on Meralco's business, financial condition and results of operations.

Litigation matters could result in large costs and distribution rate adjustments for Meralco.

Meralco and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if found against Meralco and its subsidiaries, may result in the payout of substantial claims and or the adjustment of electricity rates, including but not limited to legal proceedings between Meralco and NPC over historical billing adjustments involving a potential claim of approximately ₱14.3 billion against Meralco. As the legal proceedings remain pending, the ultimate aggregate amount of any monetary liability, the potential adjustment to electricity rates, their impact to Meralco and its subsidiaries' results of operation and financial condition and their impact to MPIC's book value of its attributable interest in Meralco remains uncertain.

Risks Relating to the Consumer Food Products Business

Legal claims, product recalls or other regulatory enforcement, adverse publicity, negative public perception regarding Indofood's products, product liability claims and customer complaints, or concerns with the safety and quality of food products in general could affect Indofood's sales, reputation and profitability.

The sale of consumer food products involves a number of reputational, regulatory, legal and other risks in relation to food safety. Indofood may need to recall some of its products if they were to become contaminated, adulterated or misbranded or if they are tampered with. Indofood may also be held liable if the consumption of any of its products were to cause injury, illness or death. A widespread product recall or market withdrawal could also result in significant losses due to the cost of conducting a recall, including the destruction of product inventory, and loss of sales due to unavailability of the affected product for a period of time. Food safety defects, including product contamination, spoilage, product tampering or other adulteration, regardless of whether they actually occur or are merely rumoured and regardless of whether they implicate Indofood's own products or those of its competitors, could have a heavy impact on business outcomes not only because of any resulting product liability claims but also due to adverse publicity, damage to Indofood's reputation and loss of consumer confidence in Indofood's food products. For example, in 2008, the market for nutrition and special foods was adversely affected by the discovery of *ebacteria sakazakii* in some packaged nutrition and special foods products sold by other producers. The incident affected the industry as a whole, including sales of Indofood's nutrition and special foods products. Regulatory investigations, whether or not they directly involve Indofood, and new regulatory measures regarding food safety and quality that affect Indofood's product categories could also adversely affect its business, financial condition, results of operations and prospects.

Indofood could also be adversely affected if consumers were to lose confidence in the nutritional or health value of certain food products or ingredients. This negative perception may include publicity regarding the nutritional or health merits of Indofood's product segments in general, of other companies' branded products or of Indofood's products specifically. Regulations motivated by concerns over nutritional or health issues that implicate Indofood's product categories or key ingredients may also adversely affect its business, financial condition, results of operations and prospects.

In addition, Indofood advertises its products and could be the target of claims relating to alleged false or deceptive advertising under applicable laws and regulations and of new laws or regulations restricting Indofood's right to advertise products.

Indofood's business will be adversely affected if it loses its halal certificate.

A large proportion of Indofood's consumer base is of the Muslim faith and can only consume products which are halal. The Indonesian government has instituted a certification process whereby vendors that prepare, process and sell their products according to certain standards, receive a halal certificate that will allow such vendors to label and market their products as halal. All of Indofood's products have received halal certification from the relevant Muslim authority in Indonesia, and continued renewal of its halal certificates is of paramount importance to the success of its business. While Indofood has processes and procedures to ensure continued compliance with the halal certificates, it does not have control over the facilities of its vendors from whom it purchases raw materials and ingredients for its products and cannot control situations in which these vendors may not fully comply with their halal certification requirements. Any such occurrence may result in Indofood's halal certificates being terminated or not renewed. If Indofood is at any time unable to renew or maintain its halal certificates, or if consumers lose confidence in Indofood's products' compliance with halal requirements, even if based on unsubstantiated rumours, it would materially and adversely affect Indofood's business, financial condition, results of operations and prospects.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect Indofood's business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, Indofood may be subject to decreased availability or less favourable pricing for certain commodities that are necessary for its products, such as (but not limited to) flour, cooking oil, milk, milk powder, potatoes and sugar.

Indofood may also be subjected to decreased availability or less favourable pricing for water as a result of climate change, which could impact its manufacturing costs. The increasing concern over climate change also may result in more regional, domestic and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted and is more aggressive than the sustainability measures that Indofood is currently undertaking to monitor its waste emissions, Indofood may experience significant increases in its costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with Indofood's products. As a result, climate change and related regulations could negatively affect Indofood's business, financial condition, results of operations and prospects.

Indofood faces increased competition in its business segments.

The markets for many of Indofood's products are subject to significant competition, both from domestic and international companies. For example, in the branded cooking oil market, the competition from the Wilmar Group or in the flour market, the entry of other competitors or in the instant noodle market, additional market competitors such as Wings Group in the past few years have put pressure on selling prices and thus lowered margins for branded cooking oils, flour and instant noodle producers. No assurance can be given that existing competitors will not expand production capacity or increase competitive pressures on Indofood or that additional domestic or foreign competitors will not enter the markets in which Indofood operates. Any such additional competition could affect Indofood's ability to maintain or raise prices or result in lower sales volumes, increased operating expenses or decreased operating margins, all of which could adversely affect Indofood's results of operations.

Anti-monopoly legislation in Indonesia may adversely affect Indofood.

In 1999, Indonesia enacted anti-monopoly legislation which prohibits a variety of practices considered to be anti-competitive or monopolistic. The legislation focuses on the behaviour of competitors within a market and the structural characteristics of a market. Although market share is considered one of the indicators that a monopoly or unfair competition exists, it is not the only factor, and there is uncertainty in the interpretation of markets and market shares. Indofood is one of the largest processed foods company in Indonesia, with leading domestic market shares for its major products, including instant noodles, flour and branded cooking oils and fats. Indofood is not aware of any action or proceedings taken or threatened against it under this legislation. However, there can be no assurance that this law, depending on how it is interpreted and enforced in the future, could not have an adverse effect on Indofood's business and market share in Indonesia.

The prices and costs of Indofood's products fluctuate depending upon international prices, exchange rates and inflation.

The prices and costs of Indofood's products are affected by international prices of imported raw materials, especially the price of wheat grain which is milled into flour and partly used in the production of Indofood's products. International prices of wheat grain and other imported raw materials, such as resin for packaging materials, are affected by a number of factors, including (among others):

- level of supply and demand;
- world production levels (wheat grain production tends to be affected by global weather conditions);
- world consumption levels of these products; and
- the world economy generally.

According to Bloomberg, average world wheat grain "free on board" ("FOB") prices were US$280 per tonne in 2007, US$399 per tonne in 2008 and US$239 per tonne in 2009. Fluctuations of the international prices for raw materials and Rupiah depreciation against the U.S. dollar could adversely affect Indofood's results of operations and financial condition. While Indofood has adjusted the prices of its products to reflect the depreciation of the Rupiah and inflation, Indofood may not be able to raise the Rupiah prices of its products in the Indonesian market to reflect fully and in a timely manner the depreciation of the Rupiah against the U.S. dollar or inflation.

Changes in tax, environmental, food quality and safety or other regulations or failure to comply with existing licensing, trade, food quality and safety and other regulations and laws could have a material adverse effect on Indofood's consolidated financial condition.

Indofood's activities are subject to regulation by various laws, regulations and government agencies, including Ministry of Health, Ministry of Trade, Ministry of Industry, Ministry of Finance, the Investment Coordinating Board and the Food and Drug Supervisory Agency ("FDSA").

The manufacturing, marketing and distribution of food products is subject to governmental regulation that is generally becoming more stringent. Those regulations control matters such as food quality and safety, ingredients, advertising, relations with distributors and retailers, health and safety and the environment. Indofood is also regulated as to its licensing requirements, trade and pricing practices and tax matters. The need to comply with new or revised tax, environmental, food quality and safety or other laws or regulations, new or changed interpretations or enforcement of existing laws or regulations or new requirements from increasing regional autonomy, may have a material adverse effect on Indofood's business and results of operations. Furthermore, if Indofood is found to be non-compliant with applicable laws and regulations in these areas, it could be subject to civil remedies, including fines, injunctions, or recalls, as well as potential criminal sanctions, any of which could have a material adverse effect on its business.

The loss of or failure to obtain, renew or comply with any or all of these licences and permits could adversely affect Indofood's business. Moreover, changes in existing laws aiming to impose more stringent standards may cause Indofood to incur additional compliance costs, which could have an adverse impact on its financial position.

Risks Relating to the Natural Resources Business

Philex's profitability may be affected by volatility of gold and copper prices.

Philex's profitability depends upon the price of gold and copper. Prices for these minerals fluctuate widely and are affected by numerous factors beyond Philex's control. Gold and copper prices are subject to volatile price changes from a variety of factors including fluctuations of global and regional supply and demand and consumption patterns, increased production, exchange rates, inflation rate expectations, international economic and political trends, forward sales by producers and speculators as well as other global or regional political, social or economic events. The behaviour of these prices to a large extent dictates Philex's revenue. If Philex's revenue falls below production costs and remains at such levels for a prolonged period of time, it may not be economically feasible to continue operations. A severe decline in gold and/or copper prices may also require Philex to write down its mineral reserves and resources which would mean shorter operating life and thus lower earnings and profitability. This may require material writedown of Philex's investments in mining properties or accelerated amortisation, reclamation and closure expenses.

Philex's only operating mine, the Padcal Mine, has been in operation for 52 years. The average grade of the ore from the Padcal mine is expected to decline as the mine approaches the end of its life, currently declared as mid-2017. As the flexibility of the mine to increase its production output gets further limited by lower ore grade, its ability to cope with significant downswings in metal prices or upswings in operating costs would be consequently affected. There is no assurance that any additional or new ore bodies will be found to augment the existing resource and extend the mine's life beyond 2017.

Mineral exploration and development is inherently speculative.

The exploration for and the development of, mineral deposits are subject to significant risks and hazards inherent in the mining industry which even a combination of careful evaluation, experience and knowledge may not totally eliminate. While the discovery of an ore body could result in substantial rewards, only few properties that are explored ultimately develop into commercially viable mines. Exploration and production may be hampered by mining and environmental legislation, industrial accidents, industrial disputes, cost overruns, land claims and compensation and other unforeseen contingencies. Success also depends on the delineation of economically recoverable reserves, the availability and cost of required development capital, movement in the price of commodities, securing and maintaining title to mining tenements as well as obtaining all necessary consents and approvals for the conduct of exploration and production activities. The commercial viability of a mineral deposit is also dependent upon a number of factors, some of which are the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations (including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection). In addition, upon discovery of a commercial ore body, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of mining companies.

Exploration and production on exploration and mining tenements may prove unsuccessful. Mineable resources become depleted over time resulting in a reduction of the value of the tenements and a diminution in the cash flow and cash reserves of mining companies as well as possible relinquishment of the exploration and mining tenements at such time. Whether income will result from projects undergoing exploration and development depends on the successful establishment of mining operations. The design and construction of efficient processing facilities as well as the availability and reliability of appropriately skilled and experienced consultants also can affect successful project development. Factors including costs, actual mineralisation, consistency and reliability of ore grades and commodity prices, the existence of competent operational management and prudent financial administration affect successful operation.

In relation to Philex, its Silangan Project is still in the process of pre-feasibility study which may or may not come out with positive results. Even if the pre-feasibility study shows that the project is feasible for operation, the definitive or bankable feasibility study may not necessarily reach the same conclusion. Should the bankable feasibility study support mine development, the capital investment required to put the mine into operation is expected to be significant. There is a risk that such capital investment may not be recovered from future operations.

Similarly, Philex's hydrocarbon projects may also require substantial investment to improve their status from exploration to operation. There is no assurance that the exploration activities will lead to the construction of productive wells, nor that these wells, if indeed put into operation, will generate sufficient profits for the recovery of the capital invested.

Mineral resource and ore reserve estimates are based on limited sampling, and actual production may not meet Philex's estimates.

No assurance can be given that the calculated tonnages and grades of ore will be achieved during production or that the indicated level of gold and copper recovery will be realised. Metal price declines, as well as increased production costs or reduced recovery rates, may increase the economical cut-off grade and thus may ultimately result in a downward restatement of ore reserves. Failure to achieve production estimates could have a material and adverse effect on any or all of future cash flows, access to capital, profitability, results of operations and financial condition. Production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates, ore grades and recovery rates, actual ground conditions (including hydrology), physical characteristics of ores (such as hardness and the presence or absence of particular metallurgical characteristics) and the accuracy of estimated rates and costs of mining, ore haulage and processing.

Philex's activities are subject to extensive environmental regulations.

Philex's mining activities are subject to extensive laws and regulations controlling the possible effects of such activities upon the environment. Permits from regulatory authorities are required for many aspects of mine operation. Environmental impact statements may be required for submission and approval thereof by government authorities. Health and safety standards and regulations also impact upon the design and use of mining methods and equipment. Complying with known standards, existing laws and regulations may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development or operation of mining properties, the extent of which cannot be predicted. Compliance with future laws may also cause delays or require capital outlays in excess of those anticipated.

There is also no assurance that future changes in environmental regulation, if any, will not adversely affect Philex's operations. Philex cannot give any assurance that any breaches of environmental laws (whether inadvertent or not) or the occurrence of environmental pollution will not materially or adversely affect its financial condition and its results of operations.

A Complaint for Injunction with Moral Damages and with Urgent *Ex-Parte* Application for the issuance of a Temporary Environmental Protection Order and/or Environmental Protection Order was filed on 22 June 2010 and is now pending before the Regional Trial Court of Surigao City, Philippines, Branch 30 ("RTC"). The Complaint was filed under "The Rules of Procedure for Environmental Cases" recently issued by the Supreme Court of the Philippines. The case is entitled "Anislagan Bantay Kalikasan Task Force, Inc. et al. versus Secretary of the Department of Environment of Natural Resources, et al.", docketed as Civil Case No. 7262. The private defendants are Manila Mining Corporation, Kalayaan Copper Gold Resources, Inc., and Silangan Mindanao Mining Company, Inc. ("Silangan Mining"). Silangan Mining is a wholly-owned subsidiary of Philex that owns the Silangan Project. The Complaint essentially seeks, among other things, to restrain further exploration activities of Silangan Mining under Exploration Permit No. XIII-013 and the construction of a livelihood and training center in Barangay Anislagan. Upon its receipt of the Complaint, the RTC issued a 72-hour Temporary Environmental Protection Order ("TEPO") which Silangan Mining received on 23 June 2010 and was set for hearing on 25 June 2010 to determine if there is a need to extend the same until the termination of the case. On the 25 June 2010 hearing, the RTC was not able to finish hearing the parties' respective evidence on the issue of the extension of the TEPO. Hence, it was reset for continuation on 29 and 30 July 2010. Since the RTC did not rule on the extension of the TEPO before its expiration, the 72-hour TEPO lapsed on 26 June 2010. The RTC continued with the hearings on the TEPO. Complainants were able to complete their presentation of evidence on 29 and 30 July 2010 hearings, thus the RTC set the case for hearing on the defendants' evidence on the issue of the TEPO on 30 September and 19, 20 and 21 October 2010. The training centre referred to in the complaint is under construction in Barangay Anislagan and is part of a community livelihood project of Silangan Mining in line with its commitment to corporate social responsibility. There is no assurance that the complaint will be resolved in favour of Silangan Mining or that at the end of the hearings before the RTC a new TEPO will not be issued. Further, should the Complaint be successful, exploration activities of Silangan Mining may be restrained or restricted which could adversely affect Philex's results of operations.

Further, Philex must comply with various other legal requirements imposed by corporation and securities laws, rules and regulations in the Philippines. Should any of those laws, rules and regulations change over time, the legal requirements to which Philex may be subject could differ materially from current requirements.

TERMS AND CONDITIONS OF THE BONDS

The following (other than the words in italics) is the text of the Terms and Conditions of the Bonds which, subject to modification, will appear on the reverse side of each of the individual certificates evidencing the Bonds:

The issue of the US$400,000,000 6.375 per cent. Guaranteed Secured Bonds due 2020 (the "Bonds", which expression shall in these Conditions, unless the context otherwise requires, include any Additional Bonds (as defined in Condition 17) issued pursuant to Condition 17 and forming a single series with the Bonds) of FPT Finance Limited (the "Issuer") was authorised by a resolution of the Board of Directors of the Issuer passed on 17 September 2010. The guarantee as set out in the Trust Deed (the "Guarantee") of the Bonds by First Pacific Company Limited ("First Pacific") was authorised by a resolution of the Board of Directors of First Pacific passed on 17 September 2010. The Bonds are constituted and secured by a trust deed (the "Trust Deed") dated on or prior to 28 September 2010 (the "Closing Date") between the Issuer, First Pacific, Philippine Telecommunications Investment Corporation ("PTIC"), DB Trustees (Hong Kong) Limited (the "Trustee"), as trustee for the holders of the Bonds and DB Trustees (Hong Kong) Limited (the "Security Trustee") as security trustee for the holders of the Bonds. These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed (which includes the forms of the Bonds in definitive form) and the Security Documents.

An agency agreement dated on or prior to 28 September 2010 (the "Agency Agreement") has been entered into between the Issuer, First Pacific, Deutsche Bank AG, Hong Kong Branch, in its capacity as principal paying agent (the "Principal Paying Agent"), paying agent (the "Paying Agent", together with the Principal Paying Agent, the "Paying Agents"), Deutsche Bank Luxembourg S.A. as registrar ("Registrar") and the Trustee.

Copies of the Trust Deed, the Agency Agreement and the Security Documents (collectively, the "Transaction Documents") are available for inspection during usual business hours at the principal office of the Principal Paying Agent (presently at 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong) and the specified offices of the other Paying Agents (if any) for the time being. The holders of the Bonds are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and the Security Documents and are deemed to have notice of those provisions applicable to them of all other Transaction Documents.

All capitalised terms that are not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1. Form, Denomination, Title and Transfer

(a) *Form and denomination*

The Bonds are issued in registered form in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. The Bonds are represented by registered certificates ("Certificates") and each Certificate shall be numbered serially and represent the entire holding of the Bonds by the same holder.

(b) *Title*

Title to the Bonds shall pass by transfer and registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by applicable law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the Certificate representing it or the theft or loss of the related Certificate and no person shall be liable for so treating the holder.

In these Conditions, "Bondholder" means the person in whose name a Bond is registered (or in the case of a joint holding, the first name thereof).

(c) ***Transfers***

One or more Bonds may be transferred upon the surrender (at the specified office of the Registrar) of the Certificate representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate (or other forms of transfer in substantially the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence which the Registrar may reasonably require. No transfer of title to any Bond will be valid or effective unless and until entered on the Register. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; provided that, in the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates***

Each new Certificate to be issued pursuant to Condition 1(c) shall be available for delivery within three Registrar Business Days of receipt by the Registrar of a duly completed request for exchange or form of transfer or the surrender of the original Certificate for exchange together with satisfaction of any other requirements imposed by these Conditions. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar to whom delivery or surrender of such request for exchange, form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 1(d), "Registrar Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar.

(e) ***No Charge***

Transfers of Bonds shall be effected without charge by or on behalf of the Issuer or the Registrar but upon payment of any tax or other governmental charges that may be imposed in relation to such transfers (or the giving of such indemnity as the Registrar may require).

(f) ***Closed Periods***

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 calendar days ending on (and including) the due date for any payment of principal (whether at maturity or upon required repurchase or otherwise) or interest in respect of the Bonds or (ii) during the period of seven calendar days ending on (and including) any Record Date, or (iii) after a Relevant Event Redemption Notice as defined in Condition 6(e) has been deposited in respect of such Bond.

(g) ***Regulations***

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

2. **Status and Guarantee**

(a) ***Status of the Bonds***

The Bonds constitute direct, unconditional, secured obligations of the Issuer. The Bonds are secured in the manner described in Condition 3 and shall at all times rank *pari passu* and without any preference or priority amongst themselves.

(b) ***Guarantee***

First Pacific under the Guarantee has unconditionally and irrevocably guaranteed payment of all sums payable by the Issuer in respect of the Bonds and any other amount payable by the Issuer under the Trust Deed. The Guarantee is set out in the Trust Deed and constitutes direct, unsecured and unsubordinated obligations of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific, save for such exceptions as may be provided by applicable laws.

3. **Security**

(a) ***Security***

The obligations of the Issuer under the Bonds and the Trust Deed are secured in favour of the Security Trustee by the following charges and security interests (the "Security"):

(i) a pledge under Philippine law dated on or prior to 28 September 2010 by PTIC (as amended, restated and/or supplemented from time to time, the "Share Pledge") over all its rights, benefit and title in initially 13.8 million common shares (the "Initial PLDT Shares") of Philippine Long Distance Telephone Company ("PLDT") (where any common shares in PLDT are "PLDT Shares") and any Additional PLDT Collateral (as defined in Condition 4(c)), and including any additional PLDT Shares which PTIC is entitled to receive as a result of its holding of PLDT Shares pursuant to the Security (including, without limitation, any shares received by way of bonus issue or any warrant, option or stock dividend or as a result of a share split or other similar events); and

(ii) any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(c).

The property, rights and interest over which the Security is granted is referred to as the "Charged Property".

All dividends and all other income and other cash distributions (including interest, premium and principal) which may accrue to the Issuer or PTIC in respect of the Charged Property may be received by the Issuer or PTIC, provided at any time shall the Issuer not be in compliance with respect to Condition 4(c) which in each case is continuing, the Security Trustee shall have, pursuant to the Trust Deed, the right to receive dividends and all other income and other cash distributions (including interest, premium and principal) made after such non-compliance with respect to the Charged Property which shall be secured as Collateral pursuant to the Additional Security.

Prior to the Security becoming enforceable in accordance with Condition 11(b), the PLDT Shares subject to the Security will remain registered in the name of PTIC and PTIC will be entitled to continue to exercise the voting rights relating to such PLDT Shares. In exercising its voting rights, PTIC may have regard to its own interests to the exclusion of the interests of the Bondholders or any of them in respect thereof except in any manner which is inconsistent with or which prejudices or is likely to prejudice the rights of the Security Trustee.

Details of the Security are more particularly set out in the Trust Deed and the Security Documents.

(b) ***Application of Proceeds***

Under the Trust Deed all moneys received by the Security Trustee in connection with the realisation or enforcement of the Security will, regardless of any appropriation of all or part thereof by PTIC, be held by the Security Trustee on trust to apply them in accordance with the Trust Deed.

The Trust Deed and the Security Documents require that the net proceeds resulting from the enforcement of the Security, after the remuneration and expenses of the Security Trustee and the Trustee and any taxes or other amounts required to be paid prior to any such application, be applied first in payment of any interest owing to the Bondholders *pari passu* and rateably, second, in payment of any principal and any other amounts owing to the Bondholders *pari passu* and rateably and third, in payment of any balance to the Issuer for itself or on trust for PTIC.

4. **Covenants**

(a) ***Restrictions***

The Issuer has undertaken in the Trust Deed that it shall not, *inter alia*, without the prior written consent of the Trustee:

(i) engage in any business other than on-lending the net proceeds of the Bonds to First Pacific, acquiring and holding the Charged Property, entering into related agreements and transactions and performing any act incidental to or necessary in connection with the issue and operation of the Bonds, the Transaction Documents or any of the foregoing;

(ii) take any action or fail to take any action, if such action or failure to take any action may interfere with the enforcement of any rights under the Transaction Documents or with respect to the Charged Property in any manner which could materially and adversely affect the interests of the Secured Parties (as defined in the Trust Deed);

(iii) amend or alter any of the provisions of its constitution, as amended and restated (the "Constitution") other than of a minor or technical nature or that will not (in the opinion of the Trustee) be materially prejudicial to the Bondholders;

(iv) issue any shares (other than such shares as are in issue at the date of the Trust Deed) or make any distribution to its shareholders; and

(v) incur any other indebtedness for borrowed moneys save for any monies lent by First Pacific to pay for its operating expenses.

(b) ***Encumbrances***

The Issuer has undertaken in the Trust Deed that it shall not create or purport to create or permit to subsist any Encumbrance, claims and equities (including, without limitation, rights of set-off or counterclaim) in, over, or in respect of any of its property, assets or revenues or any part thereof, except for:

(i) the security constituted by or arising pursuant to the terms of the Trust Deed and the Security Documents; and/or

(ii) any other Encumbrance created with the Trustee's prior written consent (at the Trustee's sole discretion) or as approved by an ordinary resolution of the Bondholders.

(c) ***Collateral Value***

On the Closing Date, the Collateral Value shall be at least 200 per cent. of the Reference Amount.

The Issuer has undertaken in the Trust Deed that if at any time and from time to time the Collateral Value is less than 150 per cent. of the Reference Amount, it shall procure that, at the election of the Issuer:

(i) additional PLDT Shares (the "Additional PLDT Collateral"), are pledged pursuant to the Share Pledge, and/or

(ii) cash and/or Cash-equivalent Securities are secured to the Security Trustee as additional security for the Bonds pursuant to the security documents described below ("Additional Security"),

as soon as possible and in any event within 13 Business Days from the occurrence of any non-performance or non-compliance by the Issuer with its obligations under this Condition 4(c), by such document or documents as are, in each case, in form and substance acceptable to the Security Trustee (acting reasonably), to ensure that the aggregate Collateral Value shall be at least 215 per cent. of the Reference Amount provided that any cash which is provided as Collateral shall be maintained by the Issuer or First Pacific in a separate interest-bearing account in the name of the Issuer or First Pacific.

The Trust Deed provides that the Issuer may, at any time, substitute cash or Cash-equivalent Securities for all or part of the Collateral provided that the aggregate Collateral Value after such substitution is at least 200 per cent. of the Reference Amount.

To the extent that the Collateral Value at any time exceeds (i) 250 per cent. of the Reference Amount, the Issuer may, at any time, cause such reduction in the PLDT Shares and/or cash or Cash-equivalent Securities secured as Collateral and (ii) 215 per cent. of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral, in either case, (such reduction to be made in the amount of PLDT Shares and/or cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such PLDT Shares and/or cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer in writing (and a copy of such instruction should be provided to the Trustee)) as will result in the Collateral Value being at least equal to 215 per cent. of the Reference Amount.

In addition, so long as any of the Bonds remain outstanding, the Issuer will provide to the Trustee (i) within 10 Business Days after the close of each fiscal quarter, an Officers' Certificate stating that the Issuer has performed and complied with its obligations under this Condition 4(c) during the fiscal quarter immediately preceding the date of such Officers' Certificate and calculations showing in reasonable detail the aggregate Collateral Value, including the arithmetic computations of each component of the aggregate Collateral Value (including the Market Value of any PLDT Shares), with respect to each Business Day in the fiscal quarter immediately preceding the date of such Officers' Certificate, (ii) as soon as possible and in any event within five Business Days after receipt from the Trustee or Bondholders of at least 25 per cent. in aggregate of the principal amount of the Bonds outstanding by the Issuer of a written demand for an Officers' Certificate showing in reasonable detail the aggregate Collateral Value, including the arithmetic computations of each component of the aggregate Collateral Value (including the Market Value of any PLDT Shares), with respect to each Business Day in the period from the end of the fiscal quarter which is the subject of the last Officers' Certificate to the date of issue of such demand, an Officers' Certificate setting out such details, and (iii) as soon as possible and in any event within three Business Days after the Issuer becomes aware or should reasonably have become aware of the occurrence of its non-performance or non-compliance with its obligations under this Condition 4(c), an Officers' Certificate setting out the details of such non-performance or non-compliance.

The Issuer has undertaken in the Trust Deed, at its own cost and expense to do, execute and deliver, or procure to be done, executed and delivered all such acts and other documents (including legal opinions) in such manner, form, substance as may, in the reasonable opinion of the Security Trustee (relying upon the advice of legal advisers chosen in consultation with the Issuer), be necessary or desirable for protecting or perfecting the Security over the Charged Property within such time as the Security Trustee may, acting reasonably, require.

Neither the Trustee nor the Security Trustee shall be under any obligation to monitor or determine the Collateral Value or the Market Value of any Collateral and is entitled to fully rely and treat as correct the information in the Officer's Certificate. The Trustee and the Security Trustee shall not be responsible for investigating, monitoring or supervising the observance or performance of any person in respect of the Security Documents or otherwise.

(d) ***Limitation on Sale of Assets and Subsidiary Stock***

First Pacific will not make any Asset Disposition, unless:

(i) First Pacific receives consideration at least equal to the Fair Market Value of the shares and/or assets subject to such Asset Disposition;

(ii) (I) if the Asset Disposition consists wholly of an Asset Swap, First Pacific has first obtained an opinion (a "Fairness Opinion") issued by an accounting, appraisal or investment banking firm of international standing confirming that the consideration relating to such Asset Swap is fair to First Pacific from a financial point of view, or (II) at least 75.0 per cent. of the consideration from such Asset Disposition received by First Pacific is in the form of cash or Cash-equivalent Securities, or (III) if the Asset Disposition consists of an Asset Swap and cash consideration and less than 75.0 per cent. of the total consideration from such Asset Disposition received by First Pacific is in the form of cash or Cash-equivalent Securities, First Pacific has obtained a Fairness Opinion in respect of the Asset Swap component of the transaction; and

(iii) the Asset Disposition does not cause an Event of Default.

(e) ***Asset Disposition involving PLDT***

If an Asset Disposition for cash consideration has the effect of, individually or in aggregate, reducing First Pacific's economic interest in PLDT as held on the Closing Date to less than 25 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), First Pacific shall, within 540 days from the later of the date of such Asset Disposition or the receipt of such proceeds, apply such proceeds (net of expenses of such Asset Disposition) in the following manner:

(A) in respect of proceeds attributable to the sale of such number of shares in PLDT as to reduce First Pacific's economic interest in PLDT to a percentage equal to 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), at the discretion of First Pacific;

(B) in respect of proceeds attributable to the sale of such number of shares in PLDT as to reduce First Pacific's economic interest in PLDT from a percentage equal to 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event) to a percentage that is less than 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), in the following manner:

  (I) 40.0 per cent.: at the discretion of First Pacific; and

  (II) 60.0 per cent. (the "Total Net Cash Proceeds"): in the following manner:

    (1) to the extent First Pacific elects (or is required by the terms of any indebtedness), to prepay, repay or purchase any indebtedness (excluding any Subordinated Indebtedness); and/ or

    (2) to the extent First Pacific elects, to invest in any Permitted Investments.

On the 541st day after the later of the (i) date of an Asset Disposition pursuant to this Condition 4(e) or (ii) the receipt of such cash proceeds from such Asset Disposition, and provided that the Excess Proceeds are greater than US$15,000,000, the Issuer or First Pacific will make a *pro rata* offer to all Bondholders and holders of any other indebtedness (excluding any Subordinated Indebtedness) as required pursuant to the terms of such indebtedness to purchase the principal amount of Bonds, and any such indebtedness (excluding any Subordinated Indebtedness) to which the Asset Disposition offer applies, that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100.0 per cent. of the principal amount of the Bonds and such indebtedness (excluding any Subordinated Indebtedness) plus accrued and unpaid interest to the date of purchase.

For the purposes of this Condition 4(e), "Excess Proceeds" means the Total Net Cash Proceeds less any aggregate proceeds applied in relation to subparagraphs 4(e)(B)(II)(1) and 4(e)(B)(II)(2) above within the time provided. For the avoidance of doubt, the balance of any other cash proceeds received by First Pacific shall not be restricted and may be dealt with at First Pacific's discretion; and

"Subordinated Indebtedness" means any liability of First Pacific howsoever arising for the payment of money the right of payment of which by First Pacific by the terms whereof is, or is expressed to be, subordinated in the event of a winding up of First Pacific to the claims of all or any class of creditors of First Pacific.

(f) ***Definitions***

In these Conditions:

"Affiliate" means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, or (b) who is a director or officer of such Person or any subsidiary of such Person or of any Person referred to in clause (a) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise;

"Asian Region" means any and all countries forming part of the Asia Pacific region, including, for the avoidance of doubt, any and all countries forming part of the Indian sub-continent;

"Asset Disposition" means any Asset Swap or Disposition by First Pacific for cash or non-cash consideration, in each case, with a Fair Market Value in excess of US$15,000,000, including any Disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding sentence, the following items shall not be Asset Dispositions:

(a) a Disposition of assets by First Pacific to a Subsidiary or Associate; provided that First Pacific directly or indirectly owns an equal or greater percentage of the common stock, of the transferee than of the transferor;

(b) Dispositions of cash or Cash-equivalent Securities in the ordinary course of business (including for the avoidance of doubt dividends);

(c) a Disposition of inventory, current assets, products or services in the ordinary course of business;

(d) a Disposition of obsolete or worn out equipment or equipment that is no 1onger useful in the conduct of the business of First Pacific (including, without limitation, vehicles, office equipment, furniture and fixtures) and that is disposed of in each case in the ordinary course of business;

(e) the creation of any Asset Pledge and any Disposition in connection with any Asset Pledge;

(f) Dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(g) the licencing or sublicencing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business which do not materially interfere with the business of First Pacific;

(h) any issue of shares pursuant to any stock dividends, rights issues, warrants, options, open offers, bonus issues, share placements and placements of securities convertible into or exchangeable for shares, any employees' and/or directors' share schemes or other similar schemes or any analogous events; provided in any case that such issues are in compliance with the regulations and listing rules governing the relevant issuer;

(i) any Disposition of assets in a single transaction or series of related transactions, the aggregate U.S. Dollar Value of the Fair Market Value of which is less than US$15,000,000; and

(j) forec1osure on assets.

"Asset Pledge" means, the pledge of shares of Capital Stock of a Material Affiliate or Material Associate to:

(a) secure the Bonds or the Guarantee;

(b) secure indebtedness of First Pacific or any of its Subsidiaries (including any indebtedness created pursuant to any obligation to increase the amount of collateral securing such indebtedness after the date of such indebtedness); or

(c) the extent any indebtedness of First Pacific or any of its Subsidiaries contains provisions that require the value of such Asset Pledge to be increased or such Asset Pledge to be supplemented after the incurrence of such indebtedness, any pledges in connection with such obligation;

"Asset Swap" means the concurrent or substantially concurrent purchase and sale or exchange of Related Business Assets between First Pacific or any of its Material Affiliates or Material Associates and another Person;

"Associate" means a company accounted for as an associate in accordance with Hong Kong Financial Reporting Standards;

"Board of Directors" means the board of directors elected or appointed by the shareholders of First Pacific to manage the business of First Pacific or any committee of such board duly authorised to take the action purported to be taken by such committee;

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorised to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors;

"Business Day" means, except as used in Condition 7(c), a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, Manila and New York City;

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any common stock and preferred stock and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible into such equity;

"Cash-equivalent Securities" means any of the following:

(i) debt securities of a sovereign nation, or any state, political subdivision, taxing authority, department or agency of a sovereign nation or obligations fully and unconditionally guaranteed by a sovereign nation or any agency of a sovereign nation, in each case, with (a) a maturity of one year or less, and (b) a rating at the time of which any investment therein is made of "P-3" or higher according to Moody's Investors Service Limited or "A3" or higher according to Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc., provided that, in case the relevant sovereign nation is the United States of America, the Republic of the Philippines or the Hong Kong Special Administrative Region of the People's Republic of China, the requirement in (b) above shall not be applicable;

(ii) certificates of deposit or commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation, bank, trust company or financial institution organised and existing under the laws of the United States of America, any state thereof or any foreign country recognised by the United States of America, with a rating at the time of which any investment therein is made of "P-3" or higher according to Moody's Investors Service Limited or "A3" or higher according to Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc.; and

(iii) any money market fund that has at least 95 per cent. of its assets continuously invested in investments of the types described in (i) or (ii) above or in time deposits, money market deposits or repurchase obligations with entities rated as in (ii) above;

"Change of Control" means the occurrence of one or more of the following events:

(a) the Permitted Holders are the beneficial owners of less than 20.0 per cent. of the total voting power of the Voting Stock of First Pacific; or

(b) any Person or Related Persons, other than the Permitted Holders, is or becomes the beneficial owner(s) directly or indirectly of more than 30.0 per cent. of the total voting power of the Voting Stock of First Pacific and such voting power exceeds that of the Permitted Holders;

"Collateral" means at any time the Initial PLDT Shares, any Additional PLDT Collateral subject to the Share Pledge and/or cash, if any, and/or Cash-equivalent Securities, if any, subject to the Additional Security;

"Collateral Value" means the Market Value of the Collateral, less the Market Value of the cash and/or Cash-equivalent Securities secured pursuant to the Additional Security, as determined by the Issuer;

"Dilution Event" means any issue of shares pursuant to any stock dividends, rights issues, warrants, options, open offers, bonus issues, share placements and placements of securities convertible into or exchangeable for shares, any employees' and/or directors' share schemes, other similar schemes or any analogous events;

"Disposition" means any sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than as aforesaid), transfers, issuances or other dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares or any shares issued pursuant to any employees' and/or directors' share option scheme), property or other assets;

"Encumbrance" includes any mortgage, pledge, lien (otherwise than arising by statute or operation of law), charge, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement or other arrangement or agreement the effect of which is the creation of security;

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution;

"Indofood" means PT Indofood Sukses Makmur Tbk;

"Market Value" means:

(a) in respect of each PLDT Share which is the subject of the Share Pledge on any relevant date, the average closing price of such PLDT Share on the PSE for the 10 Trading Days immediately preceding such date as quoted by Bloomberg (or any successor service) or if no quote is available from Bloomberg then the average closing price for the same 10 Trading Day period quoted on such other internationally recognised screen service as determined by the Issuer, provided that: (i) if no such price is quoted, the Market Value of each such PLDT Share shall be determined by the Issuer by calculating the average of three quotations for average closing prices for the PLDT Shares from brokers of international repute licensed to trade on the PSE as selected by the Issuer or, if such quotations are not available in such other manner, as determined by the Issuer; and (ii) if and for so long the PLDT Shares cease to be listed on the PSE or trading in such PLDT Shares has been suspended (save for suspension of trading in shares generally or market failure or disruption affecting the trading of shares generally on the PSE) for a period of more than 10 consecutive Trading Days or more than 15 consecutive Trading Days in the case of a voluntary suspension of trading of the PLDT Shares, the Market Value shall be deemed to be zero;

(b) in respect of any cash, the amount of such cash; and

(c) in respect of any other assets forming part of the Security, such value as determined by the Issuer on the date such assets are secured to the Security Trustee as Additional Security, provided that, to the extent that such assets consist of Cash-equivalent Securities, the Market Value shall be deemed to be (1) if such Cash-equivalent Securities are listed on a public exchange or are quoted on an over the counter securities market, the average closing price of such Cash-equivalent Securities for the 10 Trading Days immediately preceding such date as quoted by Bloomberg (or any successor service) or if no quote is available from Bloomberg then the average closing price for the same 10 Trading Day period quoted on such other internationally recognised screen service as determined by the Issuer, provided that: (i) if no such price is quoted, the Market Value of such Cash-equivalent Securities shall be determined by the Issuer by calculating the average of three quotations for average closing prices for such Cash-equivalent Securities from brokers of international repute as selected by the Issuer or (2) if such Cash-equivalent Securities are unlisted or prices are not quoted from issue or three broker quotations are not available, the Fair Market Value (as determined by an investment banking firm of international standing selected by the Issuer);

    in each case, if any Collateral is not denominated in U.S. dollars, the Market Value of such Collateral shall be its U.S. Dollar Value;

"Material Affiliate" means Indofood and Metro Pacific Investments Corporation and any Subsidiary acquired by First Pacific after the Closing Date which at the time of acquisition or subsequently:

(a) has gross revenues or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross revenues, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles) which are at least 10 per cent. of the consolidated gross revenues as shown by the latest published audited consolidated income statement of First Pacific; or

(b) has profit before taxation and extraordinary items or (in the case of a Subsidiary which itself has subsidiaries) consolidated profit before taxation and extraordinary items, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles) is at least 10 per cent. of the consolidated profit before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of First Pacific; or

(c) whose total assets or (in the case of a Subsidiary which itself has subsidiaries) total consolidated assets, as shown by its latest audited consolidated statement of financial position (calculated pursuant to Hong Kong generally accepted accounting principles) is at least 10 per cent. of the consolidated total assets of First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific,

provided that if any Subsidiary of First Pacific is deemed to be a Material Affiliate in accordance with any of paragraphs (a), (b) or (c) above, its Subsidiaries cannot be deemed to be a Material Affiliate and any Material Affiliate subject to a Disposition after the latest audited financial statements shall cease to be a Material Affiliate;

"Material Associate" means, at any time, PLDT and any Associate acquired by First Pacific after the Closing Date:

(a) where First Pacific's share of net profit before taxation and extraordinary items or (in the case of an Associate which itself has subsidiaries) consolidated net profit before taxation and extraordinary items, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles), is at least 10 per cent. of the consolidated net profit before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of First Pacific; or

(b) where the total carrying value of the investment in the Associate by First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific is at least 10 per cent. of consolidated total assets of First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific,

provided that, if any Associate of First Pacific is deemed to be a Material Associate in accordance with paragraph (a) or (b) above, its Subsidiaries (if any) or Associates (if any) cannot be deemed a Material Associate and any Material Associate subject to a Disposition after the latest audited financial statements of First Pacific shall cease to be a Material Associate;

"Officer" means a director of the Issuer, in the case of the Issuer, or an executive director or executive vice president of First Pacific, in the case of First Pacific;

"Officers' Certificate" means a certificate signed by two Officers;

"Permitted Holder" means:

(a) Mr. Anthoni Salim; and

(b) any Affiliate of Mr. Anthoni Salim; or

(c) any Person who is a Related Person with respect to those mentioned in (a) or (b) above;

"Permitted Investments" mean investments by First Pacific or any of its Wholly-Owned Subsidiaries, Material Affiliates or Material Associates in:

(a) (1) assets, undertakings and/or operations; and/or

(2) shares or other equity in Persons which own or otherwise have title to assets, undertakings and/or operations,

located in the Asian Region and relating to the telecommunications, natural resources, consumer products or infrastructure sectors; or

(b) any Related Business;

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"PLDT" means Philippine Long Distance Telephone Company;

"PSE" means the Philippine Stock Exchange, Inc.;

"Reference Amount" means the aggregate principal amount of Bonds outstanding (as defined in the Trust Deed); less the Market Value of the cash and Cash-equivalent Securities secured pursuant to the Additional Security;

"Related Business" means any business which is the same as or related, ancillary or complementary to any of the businesses of First Pacific or any of its Material Affiliates or Material Associates;

"Related Business Assets" means assets used or useful in a Related Business;

"Related Person" with respect to any Person means:

(1) any controlling stockholder or a majority (or more) owned Subsidiary of such Person, or, in the case of an individual, any spouse or immediate family member of such Person, any trust created for the benefit of such individual or such individual's estate, executor, administrator, committee or beneficiaries; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Person and/or such other Persons referred to in the immediately preceding paragraph;

"Security Documents" mean (1) the Share Pledge and (2) other documents, if any, relating to Additional Security;

"SEHK" means The Stock Exchange of Hong Kong Limited;

"Subsidiary" means a company accounted for as a subsidiary in accordance with Hong Kong Financial Reporting Standards;

"Trading Day" means a day on which the SEHK the PSE, or any other exchange on which the relevant securities are listed, as the context so requires, is open for trading of securities;

"U.S. Dollar Value" means at any time, in relation to any amount expressed in a currency other than U.S. Dollars, the amount in U.S. Dollars notionally converted from the relevant amount in such currency at the prevailing Bloomberg spot buying rate for the purchase of U.S. Dollars with such currency;

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person; and

"Wholly-Owned" means, with respect to any Subsidiary of any Person, the ownership of 100.0 per cent. of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-Owned Subsidiaries of such Person.

(g) ***Dividends***

The Issuer has undertaken in the Trust Deed, that upon the occurrence of an Event of Default or a Potential Event of Default with respect to Condition 10(b) which in each case is continuing and on the instruction of the Security Trustee, to pay all dividends and all other income and other cash distributions with respect to the PLDT Shares subject to the Security to such account of the Security Trustee as notified by the Security Trustee to the Issuer.

5. **Interest**

(a) ***Interest Amount and Interest Payment Dates***

The Bonds bear interest from and including the Closing Date at the rate of 6.375 per cent. per annum payable semi-annually in arrear on 28 March and 28 September in each year (each an "Interest Payment Date").

(b) ***Interest Payments***

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender in accordance with Condition 7, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of any such payment. In such event, it shall continue to bear interest in accordance with this Condition 5 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Trustee has notified Bondholders of receipt of all sums due in respect of all the Bonds up to the seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). The amount of interest to be paid on each Bond (the "Interest Amount") shall be calculated by applying the rate of 6.375 per cent. to the principal amount of each Bond. If the Interest Amount is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months and 30 days each and, in the case of an incomplete month, the number of days elapsed.

6. **Redemption, Purchase and Cancellation**

(a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled as provided herein, the Bonds shall be redeemed at their principal amount on 28 September 2020 (the "Maturity Date"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) ***Redemption for Taxation***

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 days' nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), at their principal amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer or (if the Guarantee were called) First Pacific has or will become required to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Bermuda or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date and (ii) such obligation cannot be avoided by the Issuer (or First Pacific, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or First Pacific as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee) then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer (or First Pacific as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or First Pacific as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition set out in (ii) above in which event it shall be conclusive and binding on the Bondholders.

(c) ***Redemption of Bonds Upon a Change of Control***

Following the occurrence of a Change of Control (as defined in Condition 4(f)), any Bondholder will have the right, at its option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds on the Relevant Event Redemption Date (as defined in Condition 6(e) below) at a price equal to 101.0 per cent. of the principal amount thereof plus accrued and unpaid interest as notified by the Issuer in writing.

(d) ***Redemption of Bonds Upon a Delisting***

In the event that First Pacific shares cease to be listed or admitted to trading on the SEHK (or, if applicable, cease to be listed or admitted to trading on a primary basis on any other stock exchange) (a "Delisting"), except when such Delisting is at the instance or request of First Pacific, any Bondholder will have the right, at its option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds on the Relevant Event Redemption Date (as defined in Condition 6(e) below) at a price equal to 100.0 per cent. of the principal amount thereof plus accrued and unpaid interest as notified by the Issuer in writing.

(e) ***Redemption Procedures***

To exercise a right of redemption under Condition 6(c) or Condition 6(d), a relevant Bondholder must complete, sign and deposit, at his own expense, at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form (for the time being current and which may, if the Certificate for such Bonds is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from the specified office of any Paying Agent (the "Relevant Event Redemption Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control or Delisting, as the case may be. The "Relevant Event Redemption Date" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or Delisting, or any event which could lead to the occurrence of a Change of Control or Delisting, has occurred.

The Issuer shall give notice to Bondholders in accordance with Condition 14 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control or Delisting, as the case may be, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to Condition 6(c) or Condition 6(d), and shall give brief details of the Change of Control or Delisting, as the case may be.

(f) ***Purchase of Bonds***

The Issuer or First Pacific or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or First Pacific or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of these Conditions.

(g) ***Cancellation***

All Bonds so redeemed or purchased in accordance with Condition 6(f) will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be resold or reissued.

7. **Payments**

(a) ***Principal and Interest***

Payments of principal will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

Interest on the Bonds will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for any such payment (the "Record Date"). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account.

(b) ***Payments subject to laws***

All payments in respect of the Bonds outstanding are subject in all cases to all applicable laws and regulations in the place of payment. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) ***Payments on Business Days***

Where payment is to be made on a Bond by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made on a Bond by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date of payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of the Registrar, or a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment.

A Bondholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (1) the due date for a payment not being a Business Day or (2) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

In this Condition, "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, New York City and, in the case of presentation of a Certificate, in the place where the Certificate is presented.

(d) ***Paying Agents***

The Issuer and First Pacific may at any time (with the prior written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents provided that so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited, they shall appoint a Paying Agent in Singapore prior to the issue of any definitive Bonds.

(e) ***Record date***

Each payment in respect of a Bond will be made to the person shown as the Bondholder in the Register at the opening of business in the place of the Registrar's specified office on the Record Date. Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Bondholder in the Register at the opening of business on the relevant Record Date.

8. **Taxation**

All payments by or on behalf of the Issuer or First Pacific in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or Bermuda or Hong Kong or any authority therein or thereof having power to tax unless such withholding or deduction is required by law. In the event that the Issuer is required by law in the British Virgin Islands or First Pacific is required by law in Bermuda or Hong Kong, the Issuer or (as the case may be) First Pacific shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) Other connection: to, or to a person on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands or Bermuda or Hong Kong other than the mere holding of the Bond; or

(b) More than 30 days after the Relevant Date: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on the last day of such period of 30 days; or

(c) Payment to individuals: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) Payment by another Paying Agent: by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include (i) any premium, or (ii) any additional amounts which may be payable under this Condition 8 or any undertaking given in addition to or substitution for it under the Trust Deed.

9. **Prescription**

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

10. **Events of Default**

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its sole discretion may, and, if so requested in writing by the Bondholders of at least 25 per cent. in aggregate of the principal amount of the Bonds outstanding or if so directed by an Extraordinary

Resolution (as defined in the Trust Deed) of the Bondholders, shall (provided that in each case the Trustee shall have been indemnified and/or secured to its satisfaction), give notice (an "Acceleration Notice") to the Issuer (with a copy to the Security Trustee) that the Bonds are immediately due and payable at their principal amount, together with accrued interest:

(a) the Issuer fails to pay any principal or premium (if any) (whether at maturity or upon required repurchase or otherwise) or interest in respect of the Bonds when due, and such failure continues for a period of seven Business Days; or

(b) the Issuer fails to perform or comply with its obligations under Condition 4(c); or

(c) First Pacific fails to perform or comply with its obligations under Condition 4(d); or

(d) the Issuer or First Pacific fails to perform or comply with any one or more of its other obligations under these Conditions, the Trust Deed or the Security Documents which failure is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not remedied within 30 days after notice in writing of such failure (giving details of such failure) shall have been given to the Issuer or First Pacific by the Trustee; or

(e) (i) any Indebtedness for Borrowed Money of the Issuer or First Pacific becomes due and payable prior to its stated maturity by reason of an event of default or the like (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due, or (iii) the Issuer or First Pacific fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness for Borrowed Money, in each of cases (ii) and (iii) after any originally applicable grace period, provided that the aggregate amount of the relevant Indebtedness for Borrowed Money in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceeds US$15,000,000 (or its U.S. Dollar Value); or

(f) (i) the Issuer, First Pacific or PLDT is unable to pay its debts generally as and when they fall due or is declared insolvent or bankrupt pursuant to a final order of a court of competent jurisdiction or (ii) any of the Issuer, First Pacific or PLDT initiates or consents to proceedings relating to itself and its debts generally under any applicable bankruptcy or insolvency law or makes an assignment for the benefit of, or enters into any composition with, its creditors generally or a moratorium is agreed or declared in respect of its indebtedness generally; or

(g) a liquidator (including a provisional liquidator), receiver, judicial manager, trustee in bankruptcy, administrator, agent or similar officer of the Issuer, First Pacific or PLDT, as the case may be, is appointed with respect to a substantial part of its assets (in the opinion of the Trustee); or

(h) an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution of the Issuer, First Pacific or PLDT, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of PLDT, by way of a voluntary winding-up or dissolution where there are surplus assets in PLDT and such surplus assets attributable to the First Pacific and/or any other Subsidiary or Associate of First Pacific are distributed to First Pacific and/or any such other Subsidiary or Associate of First Pacific; or

(i) an encumbrancer takes possession of a substantial part of the assets, undertaking, property or revenues of the Issuer, First Pacific or PLDT and such possession is not removed within 14 Business Days thereof; or

(j) the Security or any Security Document (or any material part of them) is terminated or becomes void, illegal, invalid or unenforceable or the Issuer is entitled to terminate, rescind or avoid the Security Documents or (other than as provided herein or in the Trust Deed or the Security Documents) the Charged Property ceases to be subject to the provisions of the Security therein contained or such Security is not of the priority contemplated by such agreements and in each case alternative agreements to the satisfaction of the Trustee are not made within 30 days, or such longer period as the Trustee may agree in its absolute discretion, after notice of such event shall have been given to the Issuer by the Trustee; or

(k) any final judgment or order from which no further appeal or judicial review is permissible for the payment of money shall be rendered against the Issuer, First Pacific or PLDT in an amount in excess of US$15,000,000 (or its U.S. Dollar Value) individually or in the aggregate for all such final judgments or orders against all such Persons (treating any deductibles, self-insurance or retention as not so covered) and shall not be paid or discharged when due; or

(l) a distress, attachment or execution or other legal process is levied, enforced or sued out on or against a substantial part of the properties, assets or revenues of the Issuer, First Pacific or PLDT and is not discharged within 30 days of its occurrence; or

(m) any judicial or other formal step or other formal action under the authority of statute is taken by any Government authority or agency (i) to prevent the Issuer or First Pacific from performing its payment obligations under these Conditions, the Trust Deed, the Guarantee or the Bonds, or (ii) with a view to seizure, compulsory acquisition, expropriation or nationalisation of a substantial part of property of First Pacific; or

(n) the Issuer ceases to be directly Wholly-Owned and controlled by First Pacific; or

(o) the Guarantee is not (or is deemed by First Pacific not to be) in full force and effect or First Pacific denies or disaffirms in writing its obligations under the Trust Deed, the Guarantee or the Bonds; or

(p) any event occurs with respect to the Issuer, First Pacific or PLDT which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (f) to (k),

provided that in the case of (d), (f)(ii), (l), or (m), the Trustee shall have certified that in its opinion such relevant Event of Default is materially prejudicial to the interests of the Bondholders.

"Indebtedness for Borrowed Money" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money.

11. **Enforcement**

(a) ***The Bonds***

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings (including proceedings against the Issuer) as it may deem appropriate to enforce repayment of the aggregate principal amount under the Bonds outstanding together with accrued interest and, subject to Condition 11(b), to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured to its satisfaction.

(b) ***Enforceability of Security***

The Security shall become enforceable upon the Bonds becoming immediately due and payable by reason of service of an Acceleration Notice and/or if the Issuer fails to make payment of amounts due and payable under the Bonds on the date on which they are subject to redemption under Condition 6 as applicable, whichever shall be the first to occur.

At any time after the Security becomes enforceable, the Security Trustee may, at its sole discretion without further notice, take such proceedings and/or other actions as it may think fit against or in relation to the Issuer to enforce the Issuer's obligations under the Security Documents and take action to enforce the Security without any liability as to the consequences of such action, but it shall only be bound to take any such proceedings and/or actions if:

(i) so requested in writing by the holders of at least 25 per cent. in aggregate principal amount of the Bonds outstanding; or

(ii) so directed by an Extraordinary Resolution of the Bondholders;

subject to it having been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be reasonably incurred by it in connection therewith.

(c) ***Proceeding against the Issuer or First Pacific***

No Bondholder may proceed directly against the Issuer or First Pacific unless the Trustee or the Security Trustee, having become bound to proceed under this Condition 11, fails to do so within a reasonable time and such failure is continuing.

12. **Meetings of Bondholders, Modification, Waiver and Substitution**

(a) ***Meetings of Bondholders***

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of the Bondholders of a modification or a waiver of any of these Conditions or any provisions of the Trust Deed or other Transaction Documents. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution of the Bondholders shall be two or more persons holding or representing a clear majority in aggregate principal amount of the Bonds outstanding or at any adjourned meeting two or more persons being or representing Bondholders, whatever the amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia,* (i) to amend the dates of maturity or redemption of the Bonds or any date for payment of interest on the Bonds, (ii) to reduce or cancel the principal amount of the Bonds, (iii) to reduce the rate of interest in respect of the Bonds or to vary the method or basis of calculating the rate or amount of interest in respect of the Bonds, (iv) to vary the currency or currencies of payment or denomination of the Bonds, (v) to take any steps that as specified herein may only be taken following approval by an Extraordinary Resolution of the Bondholders to which the special quorum provisions apply, (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass the Extraordinary Resolution of the Bondholders, (vii) to amend any term of the Security Documents unless, in the opinion of the Trustee such amendment is of a formal, minor or technical nature, is made to correct a manifest error, or is desirable to protect or perfect the Security, (viii) to modify or cancel the Guarantee, or (ix) to modify the provisions of the Trust Deed concerning this exception in which case the necessary quorum shall be two or more persons holding or representing not less than 66 2/3 per cent. or at any adjourned meeting not less than 25 per cent. in aggregate principal amount of the Bonds outstanding. A resolution in writing signed by or on behalf of the Bondholders holding not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding or consent given by way of electronic consents through the clearing system(s) (in the form satisfactory to the Trustee) by or on behalf of holders of not less than 90 per cent. in the aggregate principal amount of the Bonds outstanding, shall, for all purposes be as valid as an Extraordinary Resolution (as defined in the Trust Deed) passed at a meeting of Bondholders. Any Extraordinary Resolution duly passed by the Bondholders will be binding on all Bondholders (whether or not they were present at any meeting at which such resolution was passed and whether or not they voted on the resolution).

(b) ***Modification or Waiver***

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement, the Guarantee or any other Transaction Documents that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Guarantee or the other Transaction Documents that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.

(c) ***Substitution***

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, without the consent of the Bondholders, to the substitution of any other issuer in place of the Issuer, PTIC or First Pacific, or of any previously substituted issuer, as principal debtor or First Pacific under the Trust Deed and as pledgor under the Pledge and all of the Bonds outstanding. In the case of such a substitution, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds, the Security Documents, the Guarantee and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or First Pacific any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Agent subject to all applicable laws or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. Notices

Notices to Bondholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the day of mailing. In addition, so long as the Bonds are listed on a stock exchange and the rules of such stock exchange so require, notices will also be published in a daily newspaper of general circulation in the place or places required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

At all times while any portion of the Bonds remain in global form, any notices furnished pursuant to this Condition 14 shall also be given to the applicable clearing system(s).

15. **Indemnification and Obligations of the Trustee and the Security Trustee**

The Trust Deed and the Security Documents contain provisions for the indemnification of the Trustee and Security Trustee, and for their relief from responsibility in certain circumstances, including provisions relieving them from any obligation to institute proceedings against the Issuer, PTIC or First Pacific to enforce repayment or to enforce the security constituted by or pursuant to the Trust Deed and Security Documents, as the case may be, unless indemnified and/or secured to their satisfaction in accordance with the provisions set out in the Trust Deed or the Security Documents (as the case may be). The Trustee and the Security Trustee are entitled to enter into business transactions with the Issuer, PTIC or First Pacific or any entity related to them without accounting for any profit. The Trustee and the Security Trustee shall not be responsible for the performance by any other person appointed by the Issuer, PTIC or First Pacific in relation to the Bonds or any other Transaction Document (other than the Trust Deed and the Security Documents) and, unless it has actual knowledge to the contrary, shall assume that the same are being duly performed. The Trustee and the Security Trustee shall not have any responsibility for the administration, management or operation of the Charged Property including the request to release any of the Security from time to time. The Trustee and the Security Trustee shall have neither responsibility for the value of the Charged Property nor any liability of the validity, sufficiency or enforceability thereof. The Trustee and the Security Trustee shall not be liable to any Bondholder or any other person for any action taken by the Bondholders or the Trustee and/or the Security Trustee in accordance with the instructions of the Bondholders. The Security Trustee shall be entitled to rely on any direction, request or resolution of Bondholders which shall be certified by the Trustee to have been duly given by holders of the requisite principal amount of Bonds outstanding or duly passed at a meeting of Bondholders duly convened and held in accordance with the Trust Deed.

16. **Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. **Further Issues**

The Issuer and First Pacific may from time to time without the consent of the Bondholders create and issue further notes or bonds (whether in bearer or registered form) ("Additional Bonds") either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer and First Pacific may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

18. Governing Law and Jurisdiction

(a) *Governing Law*

The Trust Deed, the Bonds and any non-contractual obligations arising out of or in connection with such documents are governed by, and shall be construed in accordance with, English law. The Share Pledge and the Powers of Attorney are governed by, and shall be construed in accordance with, Philippine law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, the Guarantee and the Bonds (including any disputes relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Guarantee and/or the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Guarantee or the Bonds ("Proceedings") (including any Proceedings relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Guarantee and/or the Bonds) may be brought in such courts. Each of the Issuer and First Pacific has, in the Trust Deed, irrevocably submitted to the jurisdiction of such courts.

(c) *Service of Process*

Each of the Issuer and First Pacific has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "**Terms and Conditions**" or the "**Conditions**") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

Exchange

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates ("Certificates") if (i) either Euroclear or Clearstream (or any other clearing system (an "alternative clearing system") as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) on or following the giving of a default notice pursuant to Condition 10 occurs.

In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

Meetings

The holder of the Global Certificate shall be treated as two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US$1,000 in principal amount of Bonds in respect of which the Global Certificate is issued. The Trustee may allow to attend and speak (but not to vote), at any meeting of Bondholders, any accountholder (or the representative of any such person) of a clearing system entitled to Bonds in respect of which the Global Certificate is issued on confirmation of entitlement and proof of his identity.

Trustee's Powers

In considering the interests of Bondholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (i) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Bonds and (ii) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Bondholder's Redemption

The Bondholder's redemption option in Conditions 6(c) and 6(d) may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise (if required) within the time limits specified in the Conditions.

Redemption at the Option of the Issuer

The option of the Issuer provided for in Condition 6(b) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Conditions.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Bonds in the register and on the Global Certificate.

Payments

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Transfers

So long as the Global Certificate representing the Bonds is held on behalf of one or more clearing systems, transfers of book-entry interests in the Bonds between accountholders of such clearing systems may be made in accordance with the rules of the relevant clearing system.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system, notices required to be given to Bondholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, provided that, so long as the Bonds are listed on the SGX-ST and its rules so require, notices shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*).

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, after deducting underwriting commissions and other expenses payable by First Pacific, are estimated to be approximately US$394.8 million. The net proceeds will be on-lent by the Issuer to First Pacific who will use the net proceeds for the repayment of at least US$250 million of its outstanding debts and for general corporate purposes.

CAPITALISATION OF THE ISSUER

Capitalisation of the Issuer

The following table sets forth the unaudited capitalisation of the Issuer as at the date of this Offering Circular, as adjusted to give effect to the Bonds offered hereby.

	As at the date of this Offering Circular	
	Actual	**As Adjusted**
	(US$)	**(US$)**
Long-term borrowings		
The Bonds offered hereby	—	400,000,000
Capital		
Share capital	1	1
Shareholders' equity	1	1
Total capitalisation	1	400,000,001

CAPITALISATION OF FIRST PACIFIC

Capitalisation of First Pacific

The following table sets forth the consolidated capitalisation and cash and cash-equivalents of First Pacific as at 30 June 2010, as adjusted to give effect to the Bonds offered hereby.

	As at 30 June 2010	
	Actual	**As Adjusted**
	(US$ in millions)	
Cash and cash-equivalents (1)(2)	$ 919.1	$1,313.9(5)
Long-term and short-term borrowings:		
Indofood borrowings	$ 1,849.7	$ 1,849.7
MPIC borrowings(3)	704.7	704.7
Head Office borrowings(4)	996.0	996.0(5)
The Bonds	—	400.0
Total borrowings	3,550.4	3,950.4
Capital and reserves:		
Share capital	38.8	38.8
Retained earnings	704.2	704.2
Other components of equity	1,335.9	1,335.9
Equity attributable to owners of the parent	2,078.9	2,078.9
Non-controlling interests	2,278.8	2,278.8
Total equity	4,357.7	4,357.7
Total capitalisation	$ 7,908.1	$ 8,308.1

Notes:

(1) Includes restricted cash and pledged deposits of US$29.3 million.

(2) Of this amount US$116.8 million was held by First Pacific Head Office.

(3) Includes borrowings of MPIC, a Philippine affiliate of First Pacific pursuant to HKFRS.

(4) Includes borrowings of Two Rivers, a Philippine affiliate of First Pacific and those of the wholly-owned financing and holding companies of First Pacific. In July 2010, FPMH Finance Limited, a wholly-owned subsidiary of First Pacific, issued US$300 million of bonds due 2017. Head Office borrowings totaling US$295 million were repaid since then principally with the net proceeds from the issue.

(5) Net proceeds from the offering of the Bonds, after deducting underwriting commissions and other expenses, will be on-lent by the Issuer to be used by First Pacific for the repayment of at least US$250 million of its outstanding debts and for general corporate purposes. The application of the net proceeds of at least US$250 million to repay outstanding debts would serve to reduce each of cash and cash-equivalents and Head Office borrowings by at least US$250 million.

Other than as described above, there has been no material change to First Pacific's capitalisation (excluding cash and cash equivalents) or indebtedness since 30 June 2010.

EXCHANGE RATES

The following tables set forth the exchange rates between pesos and U.S. dollars (in peso per U.S. dollar) since 2005, as stated by the Bangko Sentral Reference Exchange Rate Bulletins published by the Treasury Department of Bangko Sentral ng Pilipinas; Rupiah and U.S. dollars (in Rupiah per U.S. dollar) since 2005, based on Bank Indonesia buying and selling rates and Hong Kong dollars and U.S. dollars (in HK dollar per U.S. dollar) since 2005, based on the noon buying rates in New York City for cable transfers, as certified for customs purposes by the Federal Reserve Bank of New York. The exchange rate as at 10 September 2010 was US$1.00 to HK$7.7660 while the exchange rate as at 17 September 2010 was US$1.00 to ₱44.254 and Rp8,985, respectively. No representation is made that the peso, HK dollar or Rupiah amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, at any other rate or at all.

₱ per US$ exchange rates

	peso/U.S. dollar exchange rates			
Year	**Period End**	**Average[(1)]**	**High**	**Low**
2005	53.067	55.086	56.341	53.067
2006	49.132	51.314	53.587	49.132
2007	41.101	46.148	49.156	41.142
2008	47.485	44.475	49.984	40.360
2009	46.356	47.637	49.056	45.947
2010				
January	46.743	46.028	46.743	45.537
February	46.258	46.312	46.610	45.970
March	45.220	45.743	46.104	45.220
April	44.644	44.627	45.043	44.182
May	46.212	45.597	46.983	44.537
June	46.310	46.303	46.792	45.550
July	45.813	46.320	46.584	45.813
August	45.179	45.182	45.557	44.891
September (through 17 September)	44.254	44.484	45.314	43.956

Source: Bangko Sentral ng Pilipinas

(1) The average of the monthly average PDS weighted average rates for the relevant period, and for monthly periods, the monthly average PDS weighted average rates for the relevant month.

Rp per US$ exchange rates

	Rupiah/U.S. dollar exchange rates			
Year	**Period End**	**Average(1)**	**High(2)**	**Low(2)**
2005	9,830	9,751	10,800	9,133
2006	9,020	9,141	9,795	8,720
2007	9,419	9,164	9,479	8,672
2008	10,950	9,680	12,400	9,051
2009	9,400	10,356	12,065	9,293
2010				
January	9,365	9,263	9,408	9,017
February	9,335	9,348	9,413	9,280
March	9,115	9,174	9,313	9,070
April	9,012	9,027	9,075	9,001
May	9,180	9,183	9,373	9,017
June	9,083	9,148	9,295	9,015
July	8,952	9,049	9,094	8,952
August	9,041	8,972	9,041	8,932
September (through 17 September)	8,985	8,996	9,034	8,934

Source: Bank Indonesia

(1) The average of the middle exchange rate announced by Bank Indonesia on the last day of each month during the period indicated.

(2) The high and low amounts are determined based upon the daily middle exchange rate announced by Bank Indonesia during the period indicated.

HK$ per US$ exchange rates

	H.K. Dollar/U.S. dollar exchange rates			
Year	**Period End**	**Average(1)**	**High**	**Low**
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010				
January	7.7665	7.7624	7.7752	7.7539
February	7.7619	7.7670	7.7716	7.7619
March	7.7647	7.7612	7.7648	7.7574
April	7.7637	7.7627	7.7675	7.7565
May	7.7850	7.7856	7.8030	7.7626
June	7.7865	7.7880	7.8040	7.7690
July	7.7672	7.7753	7.7962	7.7651
August	7.7781	7.7702	7.7788	7.7605
September (through 10 September)	7.7660	7.7697	7.7738	7.7660

Source: Federal Reserve Board of U.S.

(1) The average of noon buying rates in New York on the last day of each month during the period indicated.

THE ISSUER

The Issuer is directly wholly-owned by First Pacific. The Issuer was incorporated on 25 August 2010 as a BVI business company with limited liability under the laws of the British Virgin Islands with company number 1602103. The Issuer has no material assets and, since its date of incorporation, has not conducted, and will not conduct any business, except relating to the offering, sale and issuance of indebtedness and the lending of the net proceeds thereof to First Pacific and any other activities in connection therewith. The registered office of the Issuer is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

BUSINESS OF FIRST PACIFIC

OVERVIEW

First Pacific was founded in May 1981 and was incorporated in Bermuda in May 1988 as a limited liability company. First Pacific is a Hong Kong-based investment holding and management company with its principal business interests in Southeast Asia relating to telecommunications, infrastructure, consumer food products and natural resources.

The principal business activities of the Group and its affiliates and associated companies are as follows:

Telecommunications

PLDT, of which an approximately 26.5% economic interest is held by the Group, is the leading telecommunications service provider in the Philippines. Through its three principal business groups, wireless (operated principally through its wholly-owned subsidiary Smart), fixed line (operated principally through PLDT), and ICT (operated principally through its wholly-owned subsidiary ePLDT), PLDT offers the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Infrastructure

MPIC, an affiliate of First Pacific, of which an approximately 55.6% economic interest is held by the Group, is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

Consumer Food Products

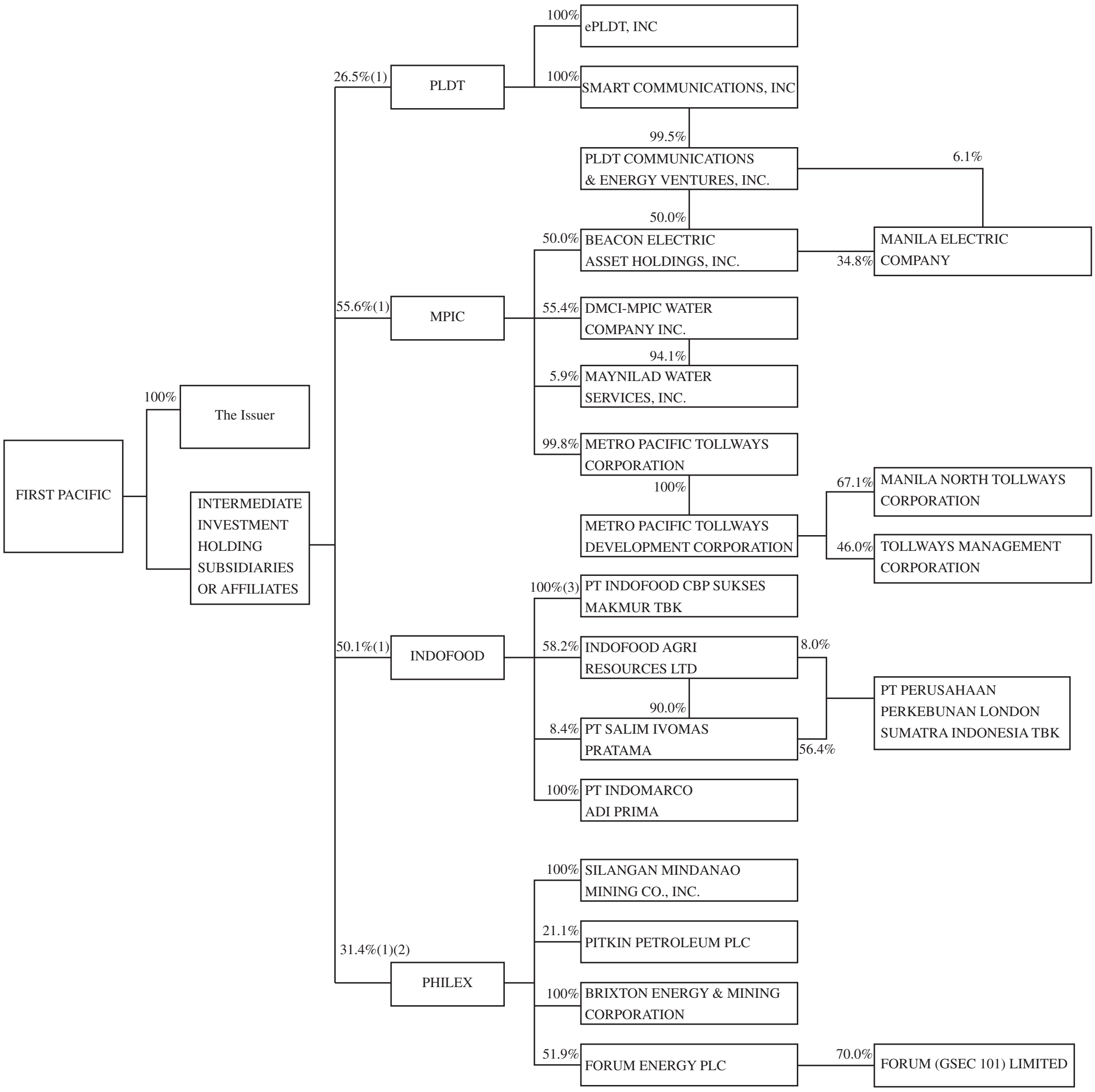
Indofood, a 50.1%-owned indirect subsidiary of First Pacific, is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: CBP (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Natural Resources

Philex, of which an approximately 31.4% economic interest is held by the Group, is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex also holds selected interests in the oil and petroleum business.

In addition, Two Rivers, a Philippine affiliate of First Pacific, holds an approximately 15.0% interest in Philex.

The following sets out First Pacific's simplified corporate structure, including its principal subsidiaries, affiliates and associated companies, as at the date of this Offering Circular:



Notes:

1. Economic Interest
2. In addition, Two Rivers, a Philippine affiliate of First Pacific, holds an approximately 15.0% interest in Philex.
3. In June 2010, Indofood announced that as part of its restructuring of the CBP group, ICBP has formally submitted a listing application for the listing of and permission to deal in its shares to the Indonesia Stock Exchange. In September 2010, First Pacific announced that upon the completion of the initial public offering of ICBP, Indofood will hold approximately 80% of the issued share capital of ICBP. Please see "Recent Developments — Restructuring of CBP Group for Purposes of Spin-off" for more information.

The major shareholder of First Pacific is Anthoni Salim, who directly or indirectly owned approximately 43.87% of the issued share capital of First Pacific as at the date of this Offering Circular.

First Pacific is listed on the SEHK and maintains an American Depositary Receipt facility in the United States, with a market capitalisation of approximately HK$27.3 billion as at 17 September 2010. For the year ended 31 December 2009 and the six months ended 30 June 2010, First Pacific reported turnover of US$3,925.6 million and US$2,161.5 million, respectively, and profit attributable to owners of the parent of US$401.6 million and US$188.5 million, respectively.

STRENGTHS

First Pacific believes that it has the following core strengths:

Strong and Consistent Cash Flow

Primarily through its economic interest in PLDT, of which it is the single largest shareholder and exercises significant influence, First Pacific receives strong recurring dividend income. With respect to the financial years ended 31 December 2007, 2008 and 2009, PLDT paid out approximately 100% of its core net income as dividends to its shareholders, resulting in dividend payments of ₱34.8 billion, ₱37.5 billion and ₱40.7 billion, respectively. Through its economic interest in PLDT, First Pacific consequently received cash dividends of the equivalent of approximately US$153 million, US$208 million and US$203 million in the years ended 31 December 2007, 2008 and 2009. In August 2010, PLDT declared an interim regular dividend representing approximately 70% of its core earnings for the first six months ended 30 June 2010. PLDT's dividend policy is to pay regular dividends at 70% of core earnings per share together with a "look back" approach with respect to any supplementary special dividends. Furthermore, Indofood paid out approximately 40% of its net income as dividends to its shareholders in the years ended 31 December 2007, 2008 and 2009. Through its equity interest in Indofood, First Pacific consequently received cash dividends of the equivalent of approximately US$14 million, US$19 million and US$18 million in those years. In May 2010, Indofood declared its final dividend for financial year 2009, which resulted in a cash dividend income to First Pacific of approximately US$41 million in September 2010. On 4 August 2010, MPIC declared a cash dividend, which resulted in a cash dividend income to First Pacific of approximately US$2 million in September 2010. In August 2010, Philex declared an interim dividend, which in accordance with its dividend policy, represents 25% of its core earnings for the first six months ended 30 June 2010, which resulted in a cash dividend income to First Pacific of approximately US$2 million in September 2010.

Leading Market Position

The Group's main business segments enjoy significant market positions in their respective sectors. PLDT is the leading cellular service and fixed line telecommunications services provider in the Philippines, with approximately 53% and 56% of total reported cellular and fixed line subscribers nationwide as at 30 June 2010, respectively. MPIC's main subsidiaries, Maynilad and MPTC, as well as its associated company, Meralco, are leading infrastructure operating companies in the Philippines. Under concessions expiring in 2037, Maynilad is the exclusive concessionaire to distribute water in the West Zone of Metro Manila and MPTC is the exclusive concessionaire to operate the NLEX toll road while Meralco is the franchised exclusive distributor of electricity in substantially all of its service areas, with the franchise valid until 2028. Indofood is one of the largest integrated total food solutions companies in Indonesia.

Diversified Portfolio of Major Philippine Infrastructure Assets

MPIC, an affiliate of First Pacific, has assembled a diversified portfolio of Philippine infrastructure and utility companies, and has potential for long-term growth and stable cash flows. These include (i) Maynilad, currently the exclusive provider of water utilities services to approximately 7.2 million people in the West Service Area of the MWSS, making it the largest water concessionaire by customer base in the Philippines; (ii) MPTC, the operator of the NLEX, SCTEx and Subic Freeport Expressway, which comprise three of the major toll road developments in the Philippines; and (iii) Meralco, the largest private sector electricity distribution utility in the Philippines.

Experienced Management Team

First Pacific considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining a strong management team. First Pacific's senior management team has significant experience in each of its businesses and a strong track record of maximising profitability, integrating acquisitions and realising synergies within and across First Pacific's businesses. First Pacific's senior management has a developed understanding of local markets and has strong relationships with government and regulatory agencies, international consultants and sources of capital.

STRATEGY

First Pacific's principal business strategy is to promote the continuing growth in profitability across all group companies and associated companies whilst further exploring investment opportunities in the Asian emerging markets, focusing on its existing core businesses across the region. To position itself for better growth, First Pacific will seek to increase its cashflow and implement a capital management programme.

Specific strategies for First Pacific's telecommunications, infrastructure, consumer food products and natural resources operations are set forth below:

Telecommunications

Build on PLDT's Leading Positions in the Wireless Businesses.

PLDT and Smart plan to build on their position as the leading wireless service provider in the Philippines by continuing to introduce new products and services (in particular, broadband services) to increase its subscribers' use of their network for both voice and data, as well as subscribers' reliance on their services. PLDT is currently upgrading its fixed line facilities to the Next Generation Network, and has rolled out a 3G network based on its W-CDMA technology as well as expanding its DSL and wireless broadband facilities.

Capitalise on PLDT's Strength as an Integrated Provider of Telecommunications Services.

PLDT offers the broadest range of telecommunications services among all operators in the Philippines. It plans to capitalise on this position to maximise revenue opportunities by bundling and cross-selling its products and services, and by developing convergent products that feature the combined benefit of voice and data, fixed line, wireless and information and communications technology services utilising PLDT's network and business platforms. PLDT is also lowering its costs by integrating the operations of its different businesses.

Strengthen PLDT's Leading Position in the Data and Broadband Market.

Leveraging on the strength of its fixed line and wireless businesses, PLDT is committed to further develop its fastest growing business segment — broadband, data and other network services. Consistent with its strategy of introducing innovative products and services using advanced technology, PLDT has launched various products and services that address different market needs.

Infrastructure

Increase Profitability of its Core Infrastructure Assets.

MPIC plans to increase the profitability of its core infrastructure assets, enhance portfolio value and grow dividend flows through prudent management. In the water utilities business, MPIC intends to increase Maynilad's profitability by expanding its water utilities services principally in the West Zone to reach the approximately 2.1 million customers either currently without piped services or underserved in terms of water availability and pressure, increasing per capita water consumption, reducing NRW and improving efficiencies in water delivery and revenue collection. In the toll roads business, MPIC intends to build, expand and operate various toll road facilities and extensions to the NLEX in order to increase traffic volumes and enjoy economies of scale. In the electricity distribution business, MPIC intends to increase Meralco's profitability by ensuring its performance meets the requirements of the guaranteed service level performance and for Meralco to enjoy a financial return as stipulated in the performance-based regulation for meeting those requirements. In its healthcare business, MPIC intends to develop its core holdings into the first nationwide chain of hospitals across the Philippines, featuring superior facilities and quality medical services.

Develop and Maintain a Diverse Set of Infrastructure Assets.

MPIC intends to maintain and continue to develop a diverse portfolio of infrastructure assets. MPIC believes that its existing investments in water utilities, toll roads, electricity distribution and healthcare services should provide strong and stable revenues. It also believes that there are other areas in the infrastructure sector that may provide opportunities for further risk diversification.

Growth Through Further Investments in Attractive Infrastructure Assets.

MPIC is committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations. Accordingly, it intends to monitor closely strategic opportunities in the Philippines. MPIC intends to leverage its sophisticated management team and strong relationships to identify attractive targets in the infrastructure sector and execute its growth plans.

Consumer Food Products

Maintain Market Leadership in Indofood's Key Consumer Branded Products.

Indofood plans to maintain its market leadership by continuing to invest in its brands to strengthen their brand equity with consumers. It intends to continue with advertising and promotion activities that increase awareness and enhance consumer awareness and loyalty. In conjunction with its marketing initiatives, Indofood plans to continue with its rural development programme. Commencing in 2009, the programme is intended to increase the distribution and penetration of its products in rural areas by pulling demand and pushing availability. Furthermore, Indofood plans to continue to meet consumers' changing preferences and ensure its products' relevance through product innovation and rejuvenation.

Further Develop its Agribusiness.

Crude palm oil continues to represent one of the cheapest vegetable oils, with continuing strong demand, especially from emerging countries, and as bio-diesel use increases, particularly in European countries. Indofood intends to capitalise on the long-term prospects of crude palm oil by continuing its strategy of new plantings and improvements in productivity through improved research and development capabilities, continuous improvement of agronomy practices and enhancement of human resources skills. Indofood also plans to continue to expand its operations into sugar production, where shortages in both the domestic and international markets continue to provide opportunities to further expand its sugar operation. Indofood expects sugar to become the second crop of its agribusiness operations and in the future create a significant contribution to Indofood's Agribusiness group.

Natural Resources

Become a Dominant Gold and Copper Producer in the Philippines.

In August 2009, the Padcal mine's operating life was extended from 2014 to 2017. Philex intends to conduct further exploratory drilling in adjacent areas to assess if there are further resources that could be mined in the years ahead. In April 2010, Philex acquired the residual interest and completed a tender offer to acquire full ownership of the Silangan Project. In the medium term, technical and financial resources will be devoted primarily to bringing this project into production as soon as practicable. The Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver. A pre-feasibility study on the Silangan Project Boyongan deposit in October 2008 concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 0.87% copper and 1.39 grams per tonne of gold. The preliminary mineral resource estimates for Silangan Project Bayugo deposit were completed in November 2009, with indicated mineral resources of 85.7 million tonnes with 0.88% copper and 0.73 grams per tonne of gold and inferred resources of 32.7 million tonnes with 0.75% copper and 0.63 grams per tonne of gold. Drilling of the Bayugo deposit to define further the mineralisation limits and to upgrade the resource to measured from indicated has been completed and is now in the process of resource estimation.

BUSINESS

The following table sets out the turnover and contribution to First Pacific's consolidated recurring profit attributable to owners of the parent for each of PLDT, MPIC, Indofood and Philex for the periods indicated:

	Turnover		Contribution to Group recurring profit[(i)]		Turnover		Contribution to Group recurring profit[(i)]	
	For the year ended 31 December				For the six months ended 30 June			
	2008	2009	2008	2009	2009	2010	2009	2010
	(US$ millions)							
PLDT[(ii)]	—	—	211.0	205.3	—	—	102.9	113.3
MPIC	112.8	336.9	7.4	33.0	156.2	193.4	14.6	22.7
Indofood	3,992.5	3,588.7	87.6	89.2	1,652.9	1,968.1	31.8	79.7
Philex[(ii)]	—	—	(1.6)	7.7	—	—	2.1	3.6
From Operations	4,105.3	3,925.6	304.4	335.2	1,809.1	2,161.5	151.4	219.3

Notes:

(i) After taxation and non-controlling interests, where appropriate.

(ii) Associated companies.

TELECOMMUNICATIONS — PLDT

PLDT is the leading telecommunications service provider in the Philippines. Through its three principal business groups — wireless, fixed line and ICT — PLDT offers the largest and most diversified range of telecommunications services to subscribers across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Smart, PLDT's wholly-owned subsidiary, is the leading cellular service provider in the Philippines, with approximately 53% of total reported cellular subscribers nationwide as at 30 June 2010 including PLDT Communications and Energy Ventures, Inc.'s ("PCEV") (formerly known as Pilipino Telephone Corporation) *Talk 'N Text* cellular subscribers, which transferred to Smart on 17 August 2009 upon acquisition by Smart of PCEV's cellular mobile telephone business. PLDT has approximately 56% of the total reported fixed line subscribers throughout the Philippines as at 30 June 2010. PLDT has interests in the ICT sectors, including the operation of PLDT's *Vitro*™ data centre, customer interaction solutions, knowledge processing solutions, and internet and online gaming service businesses.

PLDT's common shares are listed on the PSE, and its American Depositary Shares are listed on the New York Stock Exchange. For the year ended 31 December 2009, PLDT had consolidated service revenues and net income attributable to equity holders of the parent of ₱145.6 billion (US$3,046.4 million) and ₱39.8 billion (US$832.1 million), respectively (calculated on the basis of PFRS). For the six months ended 30 June 2010, PLDT had consolidated service revenues and net income attributable to equity holders of the parent of ₱72.2 billion (US$1,575.1 million) and ₱21.7 billion (US$473.2 million), respectively (calculated on the basis of PFRS). For the year ended 31 December 2009, the earnings before interest, taxes, depreciation and amortisation ("EBITDA") of PLDT was ₱86.2 billion (US$1,802.8 million). For the six months ended 30 June 2010, EBITDA of PLDT was ₱43.3 billion (US$944.3 million).

Wireless

PLDT provides cellular, wireless broadband, satellite and other services through its wireless business segment.

Cellular service

PLDT's cellular business, which it provides through Smart and Connectivity Unlimited Resource Enterprise, Inc. ("CURE") to over 45 million subscribers as at 30 June 2010, approximately 99% of which were prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other value-added services ("VAS"), which include: (a) Smart Money; (b) specialised content such as ringtones, logos and 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.

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, all of which are 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 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 pre-set duration. Starting out as purely on-network packages, Smart's top-up services now include text message bundles available to all networks.

Smart's 3G services were 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.

Voice Services

Cellular voice services comprise all voice traffic and voice VAS, such as voice mail and international roaming, and are a significant contributor to wireless revenues. While voice traffic primarily comprises outbound local calls, an increase in the cellular subscriber base in 2009 and the increased usage of unlimited domestic call services resulted in an increase in voice volume in both domestic and international inbound and outbound calls in 2009 as compared to the previous year.

Data Services

Cellular revenues from data services include all text messaging-related services and other data 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 utilises less network capacity than voice, thereby increasing network efficiency.

The success of text messaging is an indicator of future data usage potential in the Philippines' cellular market.

Smart also offers the following cellular VAS:

- *Smart Money*, launched in conjunction with MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their *Smart Money* cards, reload their prepaid cards electronically, as well as download specialised content such as ringtones, logos, caller ringback tunes and games;

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

- *Smart Padala*, one of the many innovative initiatives from the *Smart Money* platform, is the first cash remittance service through text and is faster and cheaper than traditional remittance arrangements. It was launched initially as an international remittance service for overseas Filipino workers but is now available for domestic remittances as well.

Consistent with Smart's objective to develop new businesses, in 2006, Smart introduced a "fixed wireless" broadband service under the brand *SmartBro* to complement PLDT's DSL in areas that are currently not covered by the fixed line network. *SmartBro* is rapidly increasing network coverage in order to retain "first mover" advantage in areas with limited or no fixed line or broadband coverage. *SmartBro* is also pioneering a shared access model in order to propagate broadband and address affordability barriers.

Wireless Broadband, Satellite and Other Services

PLDT currently provides its wireless broadband, satellite and other services through Smart Broadband, Inc. ("SBI") and Primeworld Digital System, Inc. ("PDSI"); its wireless broadband service providers, Wolfpac and Chikka; its wireless content operators and ACeS Philippines Cellular Satellite Corporation ("ACeS Philippines").

SBI

Through SBI, a wholly-owned subsidiary of Smart, PLDT is engaged in providing wireless broadband and data services under the brand name *SmartBro* to residential consumers as well as small and medium-scale enterprises in the Philippines. *SmartBro* aims to strengthen Smart's position in the wireless data segment and complements PLDT's DSL service in areas where the latter is not available.

PDSI

PDSI, a wholly-owned subsidiary of Smart, 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 options, managed services, VoIP and other VAS such as server co-location and data centre services.

Wolfpac

Through *Wolfpac*, PLDT is engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

Chikka

Through *Chikka*, PLDT provides 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, a subsidiary of PLDT, currently owns approximately 36.99% of ACeS International Limited ("AIL"). AIL provides satellite-based communications to users in the Asia-Pacific region through the Garuda I satellite (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.

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.

Fixed Line

PLDT provides local exchange, international long distance, national long distance, data and other network and miscellaneous services under its fixed line business segment.

PLDT offers postpaid and prepaid fixed line services. Initially intended as an affordable alternative telephone service for cost conscious consumers, PLDT's prepaid fixed line services now form an important part of its overall churn (the rate at which subscribers switch to a different service provider) and credit risk exposure management strategy. In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is primarily intended for subscribers in areas where PLDT has no facilities and is expected to increase PLDT's fixed line subscriber base. In March 2008, PLDT introduced the prepaid variant of *PLDT Landline Plus*.

Local Exchange Service

PLDT's local exchange service, which consists of its basic voice telephone business, is provided primarily through PLDT. PLDT also provides local exchange services through its subsidiaries PLDT-Philcom, Inc. ("Philcom"), Bonifacio Communications Corporation, PLDT Global Corporation and its subsidiaries ("PLDT Global"), PLDT Clark Telecom, Inc. ("Clarktel"), PLDT Subic Telecom, Inc. ("Subictel") and PLDT-Maratel, Inc. Together, these subsidiaries account for approximately 4% of PLDT's consolidated fixed line subscribers.

International Long Distance Service

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

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

PLDT has been pursuing a number of initiatives to strengthen its international long distance service business, including: (a) lowering inbound termination rates; (b) identifying and containing unauthorised traffic termination on PLDT's 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 programmes for customers. In addition, through PLDT Global, PLDT aggregates inbound call traffic to the Philippines at its points of presence and, using PLDT's capacity in submarine cable systems connected to each point of presence, transmit calls to PLDT's 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.

National Long Distance Service

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

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 PLDT's national long distance call volumes, partially offset by higher average revenue per user primarily as a result of ceasing certain promotions on national long distance calling rates. The integration of some of PLDT's local exchanges into a single local calling area, as approved by the NTC, has also negatively affected PLDT's national long distance call volumes, and consequently, its revenues as calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Data and Other Network Services

PLDT's data and other network service revenues include charges for leased lines, IP-based, packet-based and switch-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.

The continuous upgrading of PLDT's network using Next Generation Network ("NGN") facilities and the completion of PLDT's domestic fiber optic backbone has enabled it to offer a growing range of value added and broadband services. With this and other technological upgrades, PLDT's infrastructure has developed from a traditional voice facility to a new packet-switched and IP-based network allowing faster transmission of voice, video and data.

The continued growth in data services revenues can be attributed to the consistent growth of the global data business and domestic data business categories.

Information and Communications Technology (“ICT”)

PLDT conducts its ICT businesses through its wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated ICT 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 SPi Technologies, Inc. and its subsidiaries (the “SPi Group”); (2) customer interaction solutions through Vocativ Systems, Inc. (“Vocativ”), Parlance Systems, Inc. (“Parlance”) and ePLDT Ventus, Inc. (“Ventus”); (3) an internet data centre under the brand name *Vitro*™; and (4) internet and online gaming through Infocom Technologies, Inc (“Infocom”), Digital Paradise, DigiPar Thailand, netGames and Level Up!.

Knowledge Processing Solutions

ePLDT provides knowledge processing solutions through the SPi Group. The 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 organisations; (c) pre-press project management services to book publishers; (d) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (e) conversion services of medical records/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialised reporting services; and (f) revenue cycle management services for U.S. medical facilities.

Customer Interaction Solutions

ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction solutions businesses, including Vocativ and Parlance. Ventus provides offshore, cost-effective contact centre outsourcing solutions specialising in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, the U.S. and the U.K., while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S.

Data Centre and Others

ePLDT operates Vitro™, one of the Philippines’ first internet data centres that provides co-location, web and server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, 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.

Internet and Online Gaming

ePLDT owns a 99.6% equity interest in Infocom, one of the country’s leading internet service providers (“ISP”). Infocom offers consumer prepaid internet access under the names 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 132 branches. ePLDT further holds an 80% equity interest in netGames, Inc., a publisher of Massively Multi-player Online Games in the Philippines, and a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines.

Licences, Regulations and Competition

Licences

PLDT, Subictel, Clarktel, Philcom, Smart, PCEV, SBI and CURE provide telecommunications services pursuant to legislative franchises which expire, in the case of PLDT, on 28 November 2028; in the case of Subictel, in 2019; in the case of Clarktel, on 30 June 2024; in the case of Philcom, in November 2019; in the case of Smart, on 27 March 2017; in the case of PCEV, on 14 May 2019; in the case of SBI, on 14 July 2022; and in the case of CURE, on 24 April 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 licence 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.

Material Effects of Regulation on PLDT's Business

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

PLDT, Subictel, Clarktel, Philcom, Smart, PCEV, SBI and CURE, are required to pay various permit, regulation and supervision fees to the NTC.

The 13th Philippine Congress considered two bills that relate to the imposition of a franchise tax on telecommunications companies. House Bill No. 1469 proposed to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. House Bill No. 1560 proposed a franchise tax at the rate of 3.5% on the first year and 7% thereafter on the gross receipts of telecommunications and broadcast companies, in lieu of the VAT. There are also various bills in Congress which 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 ₱0.50 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.

During the 14th Philippine Congress, House Bill No. 4600 had been deliberated on which sought to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and provided for free text messages until the prepaid load has been fully consumed. Since 30 July 2008, this bill was pending with the Committee on Information and Communications Technology. The Philippine Committee on Oversight of Congress has also held discussions on the possibility of linking up the BIR, and NTC with the telecommunications companies through an electronic "metering device". These discussions led to a proposal to impose an additional ₱0.10 tax on text messaging.

The foregoing measures were not approved during the 13th and 14th Philippine Congress and will need to be re-filed as new bills, which would have to go through the legislative process anew in the present Philippine Congress before such bills can be passed into law.

The Senate has also considered Senate Bill No. 2402 in the 14th Philippine Congress but was not approved. This bill which proposed to establish a Health and Education Acceleration Programme Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 50% of their gross receipts from short messaging service or text sent from and through their networks, which would be remitted to the fund. The bill was re-filed as new bill in the 15th Philippine Congress as Senate Bill No. 548.

The NTC also periodically issues directives and circulars that regulate telecommunications industry and the manner in which PLDT conducts its business.

In order to diversify the ownership base of public utilities, the 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. In September 2004, Senate Bill No. 1418 was filed seeking to amend Section 21 of R.A. 7925. The bill sought 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. Since the 13^{th} Philippine Congress in which Senate Bill No. 1418 was filed has already adjourned, it will have to be refiled before it can be passed into law. There is no certainty that Senate Bill No. 1418 will be refiled in the upcoming 15^{th} Philippine Congress.

Competition

Including PLDT, there are four major LECs 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, PLDT is facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments.

INFRASTRUCTURE — MPIC

As at the date of this Offering Circular, First Pacific held a 55.6% economic interest in its affiliate, MPIC. MPIC is in the business of investing in infrastructure businesses.

MPIC, incorporated in the Philippines in 2006, is based in Makati City, Manila and is listed on the PSE trading under the symbol "MPI". MPIC is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

For the year ended 31 December 2009, MPIC had consolidated revenues and net income attributable to the equity owners of the parent of ₱16.1 billion (US$336.9 million) and ₱2.3 billion (US$48.1 million), respectively (calculated on the basis of PFRS). For the six months ended 30 June 2010, MPIC had consolidated revenues and net income attributable to the equity owners of the parent of ₱8.9 billion (US$193.4 million) and ₱1.8 billion (US$38.3 million), respectively (calculated on the basis of PFRS). For the year ended 31 December, the EBITDA of MPIC was ₱9.6 billion (US$200.5 million). For the six months ended 30 June 2010, the EBITDA of MPIC was ₱4.2 billion (US$91.7 million).

Water Utilities Operations

MPIC's subsidiary Maynilad manages and operates water delivery, sewerage and sanitation services under the terms of a concession agreement covering approximately a projected 9.3 million people for 2010 (7.2 million of whom are currently served) in West Service Area of MWSS comprising Bacoor, Caloocan, Cavite, Imus, Kawit, Las Pinas, Malabon, Muntinlupa, Navotas, Noveleta, Paranaque, Pasay, Rosario, Valenzuela and parts of Makati, Manila and Quezon City, making it the largest water concessionaire in the Philippines by customer base.

Under the Water Utilities Concession Agreement, Maynilad has exclusive rights to service the West Zone as an agent and contractor of the MWSS, a government-owned and controlled corporation responsible for waterworks and sewerage services in Metro Manila, Rizal and Cavite. Under the Water Utilities Concession Agreement, Maynilad uses MWSS's land and operational fixed assets and has the exclusive right to produce and treat raw water, distribute and market water, and collect, transport, treat, dispose and re-utilise wastewater, including reusable industrial effluent discharged by the sewerage system for the West Zone. Maynilad is entitled to recover, over the concession period, its operating, capital maintenance and investment expenditures, business taxes and concession fee payments, and to earn a rate of return, known as the appropriate discount rate ("ADR"), for the term of the concession. Maynilad's ADR for the current regulatory period is 9.3%. See "— Customers — Tariff Structure and Rate Regulation".

Maynilad has significantly improved water utilities services in the West Zone since being granted the water concession and plans to continue to rehabilitate and expand its water utilities network, reduce the volume of water lost in its distribution system due to leakage, theft from illegal connections and metering errors, also known as NRW levels, ensure an uninterrupted 24-hour water supply, increase water pressure and population coverage, and expand coverage of sanitation and wastewater services.

The Water Utilities Concession Agreement

The Water Utilities Concession Agreement grants Maynilad, as an agent and contractor of MWSS, the use of MWSS's land and operational fixed assets to provide water and sewerage services in the West Zone (the "Water Concession"). The Water Concession took effect on 1 August 1997 for an initial term of 25 years to 6 May 2022. On 10 September 2009, MWSS approved extension of the Water Utilities Concession Agreement for 15 years to 2037. Maynilad has the right to bill and collect for water and sewerage services in the West Zone and, in return, is responsible for the management, operation, repair and refurbishment of MWSS facilities in the West Zone and must provide service in accordance with specific operating and performance targets. The Water Utilities Concession Agreement requires Maynilad to pay MWSS concession fees for (a) payments due under MWSS loans and costs and cost overruns incurred by MWSS with respect to projects relating to the West Zone, (b) half of the annual budget of MWSS and (c) the establishment of the Regulatory Office. Water tariff rates are adjusted according to mechanisms which relate to inflation, extraordinary events, foreign currency differentials and rate rebasing ("Rate Rebasing"), which is a process prescribed by the MWSS every five years to review its contracted water utilities' spending programmes needed to provide water and wastewater services in their concession area and the corresponding tariff adjustments required to be implemented. MWSS may terminate the Water Utilities Concession Agreement under certain circumstances, including the failure of Maynilad to perform an obligation under the Water Utilities Concession Agreement which in the opinion of the Regulatory Office jeopardises the provision of essential water and sewerage services to all or any significant part of the West Zone. On the expiration of the Water Utilities Concession Agreement, all of the rights, duties and powers of Maynilad automatically revert to MWSS.

Water Operations

The process of supplying water to Maynilad customers generally involves extraction from water sources, subsequent treatment and distribution to customers' premises. In 2009, Maynilad supplied an average of approximately 2,426 MLD of water. In the six months ended 30 June 2010, Maynilad supplied an average of approximately 2,251 MLD of water. As at 31 December 2009, Maynilad had 814,645 total water service or metered connections, a 7% increase from 31 December 2008. As at 30 June 2010, Maynilad had 846,682 total water service or metered connections, a 4% increase from 31 December 2009. Billed volume initiatives such as identifying illegal users, billing of unbilled services and replacing faulty meters also contributed to this growth in connections. Capital investment projects, such as new pipelines for reaching unserved areas and service improvement projects for underserved areas, have also led to increased billed volume.

Water Resources

Under the Water Utilities Concession Agreement, MWSS supplies raw water, free of charge, to Maynilad's distribution system and is required to currently supply a minimum quantity of 2,400 MLD of raw water. The average raw water supplied to Maynilad was 2,441 MLD in 2009 and 2,256 MLD in the six months ended 30 June 2010. Should MWSS fail to supply the minimum quantity, Maynilad is required to distribute available water equitably. Maynilad may recover additional expenses incurred as a result of such a water shortage through an extraordinary price adjustment ("EPA") and lost revenues through the Rate Rebasing adjustment to the applicable tariff. See "— Customers — Tariff Structure and Rate Regulation". Maynilad currently receives substantially all of its water from MWSS.

In the Philippines, supervision and control of all water resources rests with the NWRB, a statutory body which grants appropriation rights to and adjudicates conflicts between all water users, including MWSS. The NWRB allocates water through water permits, which may be revoked on grounds of non-use, pollution or other violations. The NWRB may also alter water allocation based on natural disasters and other unforeseen extraordinary events.

Water Production

The following table sets out the treated water produced by Maynilad for the periods indicated:

Period	Surface Water	Wells	Total
		(Average MLD)	
Year ended 31 December 2007	2,257	36	2,293
Year ended 31 December 2008	2,374	31	2,405
Year ended 31 December 2009	2,392	34	2,426
Six months ended 30 June 2010	2,211	40	2,251

Water Utilities

Water is distributed through Maynilad's network of pipelines, pumping stations and mini-boosters. As at 30 June 2010, Maynilad's network consisted of approximately 6,194 kms of total pipeline, consisting of primary, secondary and tertiary pipelines. Maynilad is required to supply water at a minimum pressure of 7 pounds per square inch ("psi") to all areas connected by new primary or secondary conveyance pipelines by 2012 and 16 psi by 2016. Under the concession agreement, if Maynilad fails to meet the minimum psi requirements by the relevant deadlines, it is subject to penalties in the amount equal to 25% of the costs needed to meet such requirements. 7 psi is the minimum pressure at which pumped water will travel to the second floor of a building with enough pressure for a person to take a shower. As at 31 December 2009, approximately 79% of households served by Maynilad had a minimum water pressure of 7 psi, and as at 30 June 2010, approximately 73% of households served by Maynilad has a minimum water pressure of 7 psi. A number of factors affect the pressure of water supplied by Maynilad. In general, replacing faulty pipes and adding pumping facilities increases water pressure, while expansion of the system decreases systemwide water pressure.

Non-Revenue Water

NRW refers to the volume of water lost in Maynilad's distribution system due to leakage, theft from illegal connections or metering errors. In 2009 and the six months ended 30 June 2010, Maynilad's average NRW was approximately 60% and 55%, respectively, the majority of which was due to leakage.

Maynilad has established a dedicated team whose sole purpose is to reduce NRW by improving the billing system, replacing meters for commercial and high-usage customers, undertaking comprehensive leak repairs, reducing illegal connections, servicing pipe replacement and rehabilitating distribution lines. The district metered area ("DMA") programme, which ensures that piped water is properly metered and billed, is a central part of Maynilad's water service improvement plan. Originally, water service areas were based on political and/or geographic boundaries and could contain two or more entry and outflow points. DMAs have a single water entry and outflow point which enables Maynilad to effectively monitor, control and distribute water. DMAs also facilitate efficient account administration, especially in densely populated areas.

Water Quality

Maynilad believes that its water quality surpasses the Philippine National Standard for Drinking Water set by the Department of Health which is based on World Health Organisation water quality guidelines. During tests conducted in 2009 and the six months ended 30 June 2010, Maynilad water samples obtained an average bacteriological compliance score which surpassed the threshold of 95% set in the Water Utilities Concession Agreement. Maynilad collects regular samples on a monthly basis for bacteriological examination of treated surface water and ground water sources.

Water at the Maynilad treatment plants undergoes daily bacteriological and physical-chemical analysis. Sampling on deep wells within the coverage area is conducted jointly with the Regulatory Office and undergoes monthly bacteriological analysis.

Sewerage Operations

Maynilad is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a programme of emptying septic tanks in the West Zone.

Sewerage and Sanitation System

Maynilad operates a wastewater system that collects and treats sewage through its sewerage system and sanitation facilities.

Maynilad has expanded its sanitation service business, which consists of desludging septic tanks and disposing of sludge. Philippine law requires individual septic tanks to be utilised in areas not covered by the public sewerage system. Septic tanks require desludging every five to seven years, which is carried out by Maynilad or by private contractors hired by households.

Sewage from sewer lines is treated at Maynilad's treatment facilities prior to disposal. Maynilad has assumed control over and runs four facilities for the treatment and disposal of sewage generated in the West Zone. Maynilad is also rehabilitating the existing sewer systems and will construct new facilities to extend wastewater service coverage.

Maynilad operates 32 desludging tankers, which are used to empty individual septic tanks and deliver septage to transfer stations in Dagat-Dagatan Septage Treatment Plant. In conjunction with the Fertiliser and Pesticide Authority and the Sugar Regulatory Administration, biosolids produced from septage treatment is currently being used as soil conditioner for sugarcane cropland. The development of land-based septage treatment plants is currently ongoing.

Customers

Maynilad manages and operates water utilities services for customers in the West Zone, which had a projected population of approximately 9.3 million people for 2010 as at the date of this Offering Circular and spans approximately 540 square kms. It is comprised of the following 12 cities and five municipalities: Bacoor, Caloocan, Cavite, Imus, Kawit, Las Pinas, Malabon, Muntinlupa, Navotas, Noveleta, Paranaque, Pasay, Rosario, Valenzuela and parts of Makati, Manila and Quezon City.

Customer Sales

As at 30 June 2010, Maynilad had 846,682 total water service or metered connections, which were billed directly to Maynilad. Of these directly billed connections, approximately 93% were domestic residential and semi-business, while the remaining 7% were commercial or industrial. As at 30 June 2010, Maynilad served approximately 791,120 domestic residential and semi-business connections.

Tariff Structure and Rate Regulation

The Regulatory Office determines Maynilad's water tariffs in accordance with the terms of the Water Utilities Concession Agreement. Different water tariff schedules apply to the four main categories of retail customers: residential, small business, large commercial, and industrial. Each category has its own cost structure, divided into nine consumption bands for residential and small business and 33 bands for large commercial and industrial customers. Industrial, large commercial and small business customers, on average, pay three to four times more than residential customers for the same volume of water consumed.

Maynilad charges all customers (a) a currency exchange rate adjustment ("CERA") of ₱1.00 per cubic meter of water consumed, (b) an environmental charge, equivalent to 14.0% of the sum of the (i) basic water tariff (ii) the foreign currency differential adjustment ("FCDA") and (iii) CERA, which is meant to cover the costs of desludging septic tanks and other environmental services and (c) a flat meter maintenance service charge based on meter size and a 12% value-added tax. Customers who receive sewerage services pay an additional sewerage charge equal to 20.0% of the sum of the (i) basic water tariff (ii) FCDA and (iii) CERA, to cover the cost of wastewater treatment and expansion of sewerage services.

In 2000, the average basic water rate was ₱5.80 per cubic meter. Water tariff rates are adjusted according to the provisions of the Water Utilities Concession Agreement.

Evolution of Tariff Rates

The following table summarises the history of rate adjustments for non-sewered customers (in pesos per cubic meter) over the period indicated:

All-in Charges for Unsewered Services, 2000-1H2010 Overall Average[(1)] (pesos/cubic meters)	2000	2001	2002	2003	2004	Avg 2005	Avg 2006	Avg 2007	Avg 2008	Avg 2009	Avg January to June 2010
Previous Basic	5.80	6.13	10.79	11.39	11.39	11.39	19.72	21.12	22.47	19.80	27.24
CPI	0.33	0.26	0.60	—	—	—	1.40	1.35	0.58	2.42	—
EPA	—	0.19	—	—	—	—	—	—	—	—	0.05
Average EPA (effective 20 October 2001 AEPA of ₱4.21)	—	4.21	—	—	—	—	—	—	—	—	—
Rate Rebasing	—	—	—	—	—	8.33	—	—	—	5.02	1.00
Basic	6.13	10.79	11.39	11.39	11.39	19.72	21.12	22.47	23.05	27.24	28.29
CERA	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
FCDA	—	—	4.07	4.07	4.07	0.00	0.24	(0.26)	(0.34)	0.05	0.11
STM	—	—	—	—	—	4.23	4.15	3.45	2.07	—	—
Environmental Charge	0.71	1.18	1.65	1.65	1.65	2.50	2.65	2.67	2.58	2.73	4.12
Prepayment Adjustment[(2)]	—	—	—	—	—	—	—	—	—	(2.22)	(2.31)
VAT	0.78	1.30	1.81	1.81	1.81	2.74	3.50	3.52	3.40	3.70	3.74
Payment Incentive Adjustment[(2)]	—	—	—	—	—	—	—	—	—	(1.56)	(1.62)
Total Bill — Unsewered	8.62	14.27	19.92	19.92	19.92	30.19	32.66	32.85	31.76	30.94	33.33

Notes:

(1) MWSS calculates rates based on an assumed customer mix, and therefore does not reflect the actual consumer mix for Maynilad or its effective tariff rates, except for 2009, in which it adjusted the beginning basic tariff to approximate the actual effective tariff as of 2008.

(2) To mitigate the impact of the rate increase, the Regulatory Office required the simultaneous implementation of the Prepayment Adjustment (“PA”) and the Payment Incentive Adjustment (“PIA”) within an accelerated period of two years, resulting in a downward adjustment of 8.15% and 5.73% per cubic meter, respectively, based on the 2009 average basic charge for unsewered services.

Compliance by MWSS with the 12% Limit on Return on Rate Base

MWSS’ charter imposes a 12% limit on the return on rate base for MWSS. The NWRB, which is mandated to determine the compliance by MWSS with the 12% return on rate base limit, has confirmed that this rate applies to the entire waterworks system, including the income and assets held by MWSS, Manila Water and Maynilad. Pursuant to the Water Utilities Concession Agreement, if the tariff rates determined to be appropriate for Maynilad would cause a breach of the MWSS 12% return on rate base limit, MWSS would have to compensate Maynilad with an expiration payment for expenditures not covered by water and sewerage rates. Maynilad may also agree, in place of an expiration payment, to receive from the Regulatory Office some other benefit, such as an adjustment to one or more of the coverage targets.

Concession Fees

The Water Utilities Concession Agreement requires Maynilad to pay MWSS concession fees for (a) payments due under MWSS loans and costs incurred by MWSS with respect to projects relating to the West Zone, (b) half of the annual budget of MWSS and (c) the establishment of the Regulatory Office.

In accordance with the Water Utilities Concession Agreement, Maynilad paid concession fees of approximately ₱3.7 billion and ₱1.3 billion, respectively, for the years ended 31 December 2008 and 2009, and ₱1.1 billion for the six months ended 30 June 2010.

Capital Expenditure Plans

Capital expenditure has been used to rehabilitate facilities inherited from MWSS, as well as design and plan of various new projects to improve water and wastewater services in order to meet the service obligations under the Water Utilities Concession Agreement. Maynilad plans to continue to rehabilitate and expand its water utilities network, reduce its NRW levels, improve water pressure and water supply management, expand sanitation services and integrate new technology and information technology into the system.

Toll Road Operations

MPIC holds its toll road assets through its subsidiaries MPTC and Metro Pacific Tollways Development Corporation (“MPTDC”). MPTDC holds a 67.1% interest in MNTC, which holds the concession rights to construct, operate and maintain the NLEX, and a 46.0% interest in Tollways Management Corporation (“TMC”), which is the operator of the NLEX and the SCTEx. MPIC acquired its toll road operations through its purchase of 99.8% of Metro Pacific Tollways (then known as First Philippine Infrastructure, Inc.) from First Philippine Holdings Corporation (“FPHC”) and Benpres Holdings Corporation on 13 November 2008.

The NLEX

The NLEX is a modern toll expressway that was commissioned by the government in order to replace the aging North Luzon Diversion Road and to facilitate the development of the Subic and Clark Special Economic Zones. The NLEX has been open and operating since February 2005.

The NLEX has 16 exits and interchanges, four toll barriers and ten rest and service areas, and consists of eight lanes through Metro Manila, which narrows to six and then four lanes as it enters the more rural areas to the north. The NLEX also features modern safety and anti-congestion measures, including roadside assistance, emergency telephone lines, closed-circuit televisions for monitoring traffic flows, guardrails and fences, and runaway ramps and weigh scales for trucks and other commercial vehicles.

The NLEX serves as a gateway to travelers going to Central and Northern Luzon from the National Capital Region and vice versa. It starts from Balintawak, Quezon City, passes through the National Capital Region, traverses the agricultural provinces north of Manila, and ends in Sta. Ines, Mabalacat, Pampanga. The majority of NLEX users are Class 1 vehicles (e.g. cars) comprising more than 70% of traffic volume; the rest are made up of Class 2 vehicles (e.g. buses) and Class 3 vehicles (e.g. trucks). See “— Toll Rates and Collection Systems”.

Economic activity in the area, toll fees and fuel prices, seasonality, availability of connecting routes and competition are all factors that affect traffic volumes on the NLEX.

The Toll Road Concession

MNTC is the holder of the rights under the toll road concession. MNTC is currently 67.1% owned by MPTDC, 16.5% owned by Globalfund Holdings, Inc., an investment holding firm owned by the Sy family, which controls SM Investments Corporation, one of the Philippines' largest conglomerates, occupying a dominant position in retail, mall operations and banking, 13.9% owned by Egis of France, one of the world's biggest tollways operators, and 2.5% owned by PNCC, the state-owned construction company that was originally granted the franchise to build and operate the NLEX. MNTC's primary purpose is to carry on a construction and contracting business involving tollways (including the NLEX), toll facilities, interchanges and related works, including the operation and maintenance thereof. MNTC derives substantially all of its revenue from toll collections from the users of the NLEX.

The rights and obligations of MNTC, as concessionaire for the toll road concession, are principally governed by the Supplemental Toll Operation Agreement, among the Philippine government (acting by and through the Toll Regulatory Board) as the grantor, PNCC as franchisee and MNTC. The Toll Road Concession Agreement (as defined under "*Risk Factors — MPIC's Toll Road Concession is subject to a challenge in the Supreme Court of the Philippines*.") is the key material contract to the business of MNTC. The Toll Road Concession Agreement was clarified by the TRB Clarifications dated 5 July 2001.

Toll Rates and Collection Systems

As the source of substantially all of the operating revenue from the NLEX, toll collections are the most important aspect of its operation. The NLEX has two sections: an "open toll" section and a "closed toll" section. The 14-kms open toll section (located within Metro Manila) charges a flat toll per entry based on the class of vehicle. Toll rates for the 70- kms closed toll section are variable, and are calculated according to the distance traveled on the closed toll section and the class of vehicle.

Vehicles using the NLEX are categorised into one of three classes for purposes of assessing appropriate toll rates:

- Class 1 includes "Light Vehicles", such as cars, jeepneys (elongated jeeps with covered roofs and room to seat 16 to 20 passengers) and vans;

- Class 2 includes "Buses", and including tourist, school and public utility buses, as well as two-axle trucks and Class 1 vehicles higher than 7 feet or with more than two axles; and

- Class 3 includes "Heavy Vehicles", including trucks with three or more axles.

MNTC operates a total of 155 toll lanes on the NLEX. Toll fees are collected either in cash, through a manual toll fee payment, or by electronic toll collection system. MNTC has implemented two types of electronic toll collection systems: "EC Tags" and "NLEX Badge/Magnetic Card". The EC Tag system uses an on-board unit or transponder installed in the user's vehicle, which communicates wirelessly with the toll lane equipment. With an EC Tag, a user is able to drive through a toll plaza without stopping, and toll fees are deducted automatically from the user's account through the transponder. The NLEX Badge/Magnetic Card system allows users to store credits on a magnetic card, which a teller in a toll plaza can swipe through a card reader for instant payment through the electronic deduction of credits from the card.

All toll collection processes and operations are computerised and a global validation and security system is being implemented for the NLEX in order to control leakage and fraud. MNTC has implemented systems and procedures to control toll leakage and fraud in the NLEX operations, including:

- in the closed system, the automatic encoding of transit tickets with entry information, including the location, time and date of ticket delivery;
- surveillance systems for the oversight and verification of the decisions of toll collectors;
- systems that track and confirm toll collections, including manual and automatic checks at multiple levels: (i) at the toll booth; (ii) the plaza computer system at each toll plaza; and (iii) a central toll computer system;
- the production of end-of-shift reports by toll collectors, including checks on the total toll receipts at the end of each shift, which are cross-checked against data collected by automatic vehicle counters, and regular audits of such end-of-shift reports;
- the promotion of cashless electronic toll collection systems;
- the protection of cash receipts in safes located inside mini-buildings on small toll plazas or in strong rooms on larger toll plazas, with daily cash bank deposits delivered by armoured vehicles; and
- surveillance and controls over cash counting, collection and deposit processes.

The following table sets out toll rates for 2007 and 2008 under the Toll Road Concession Agreement for open and closed systems. The 2008 toll rates remain in effect as at the date of this Offering Circular.

Vehicle Class	1 January 2007 - 30 June 2008		1 July 2008 - Present		Decrease	
	Open (peso/ entry)	Closed (peso/km)	Open (peso/ entry)	Closed (peso/km)	Open	Closed
Class 1................................	38.00	2.20	36.00	2.13	5.26%	3.14%
Class 2................................	94.00	5.49	91.00	5.32	3.19%	3.14%
Class 3................................	113.00	6.59	109.00	6.38	3.54%	3.14%

The Toll Regulatory Board and MNTC agreed to reduce toll rates by an average of 3% in July 2008, an adjustment that was made ahead of an adjustment originally scheduled to take effect in January 2009. The toll rate formula was also revised to remove a foreign currency adjustment mechanism. To mitigate against the risk of foreign currency fluctuations, MNTC entered into cross currency swap transactions relating to its foreign currency-denominated debts between July 2008 and March 2009 in order to hedge its foreign currency exposure.

Value Added Tax (“VAT”) on Toll Fees

In September 2005, the Philippine Secretary of Finance, acting through the BIR, issued a Revenue Memorandum Circular that for the first time expressly identified toll road operations as subject to a 10% VAT (which has been adjusted to the current rate of 12%). At the direction of the TRB, MNTC and other toll road operators in the Philippines have deferred output VAT. In 2010, the BIR issued several Revenue Memorandum Circulars reiterating its position that toll fees are subject to VAT. A technical working group comprised of BIR, TRB and toll road operators was formed and agreed to a prospective implementation of VAT effective 16 August 2010. Following discussions carried out by technical working group, the BIR issued Revenue Memorandum Circular No. 63-2010, outlining the agreements reached, including the permission granted to toll road companies to apply for an abatement for VAT assessments covering taxable periods prior to 16 August 2010. However, on 13 August 2010, the Supreme Court of the Philippines issued a temporary restraining order in response to a petition filed against the implementation of VAT on toll fees. As of the date of this Offering Circular, the Supreme Court of the Philippines has yet to make its determination on this matter. In the event that the Court upholds Revenue Memorandum Circular No. 63-2010, MNTC will be obligated to collect VAT by passing to its motorists an additional 12% tax on top of the existing toll fees.

Toll Road Rehabilitation, Expansion and Construction

NLEX Projects

From its inception, MNTC has been engaged in the rehabilitation of, and the installation of a toll road collection system on, the NLEX which are carried out in phases.

In March of 2001, MNTC, through a competitive bidding process, had been awarded the construction contract for Segments 1, 2 and 3 of Phase I to Leighton Contractors (Asia) Limited ("LCAL"). LCAL was the main contractor for the rehabilitation work and Egis, a minority stockholder of MNTC, was the main subcontractor for the toll, telecommunications and traffic management systems. Construction of Phase I started in February 2003. On 26 January 2005, the independent certification engineer responsible for the project issued a "Certificate of Substantial Completion" in respect of Phase I. On 27 January 2005, the Toll Regulatory Board issued a Toll Operation Permit for the operation and maintenance of Phase I (consisting of Segments 1, 2, 3 and 7) in favor of MNTC, which became effective on 8 February 2005. The permit allowed MNTC to commence commercial operations on the NLEX on 10 February 2005.

MNTC began construction of Segment 8.1, the first element of Phase II, in April 2009 and completed construction in June 2010. Segment 8.1 is a two-lane roadway of approximately 2.7 kms, connecting Mindanao Avenue to the NLEX, south of the existing Valenzuela interchange. The project involves the establishment of a toll plaza on Mindanao Avenue and is expected to reduce traffic congestion at the main Balintawak entry point to the NLEX, and thereby facilitate access to the NLEX, particularly during peak hours of traffic. As in Phase I, Segment 8.1 is equipped with toll collection, traffic management and telecommunication systems and other safety features. MNTC obtained the approval of the TRB for an integrated concession period for Phase I and Segment 8.1, and the extension of the toll road concession period by seven years from 31 December 2030 to 31 December 2037.

Metro Pacific Tollways has completed a pre-feasibility study for the implementation of Segments 9 and 10. As proposed, Segments 9 and 10 will connect the NLEX to the MacArthur Highway in Valenzuela and the port area in Manila, covering a distance of approximately eight kms. The estimated project costs for Segments 9 and 10 are approximately ₱1.3 billion and ₱6.7 billion, respectively.

Repairs

Repair and maintenance of the NLEX are divided into three main categories:

- Routine maintenance of the road and equipment, which consists of the mechanical sweeping of the road surface, the cleaning of drains, gullies and manholes, the removal of debris and grease from the road surface, cleaning up after accidents, the replacement of consumable equipment, minor repairs to pavements and structures, preventive maintenance to various equipment, and the maintenance and replacement of TMC's equipment. These are carried out by TMC as part of its regular functions and are covered by the operator's fees.

- Repairs and replacement, including pavement repair/resurfacing or overlay, repair of drainage network, fences (greater than 15 meters in length), structural foundations, replacement of fixed operating equipment parts, exterior painting of buildings and structures, upgrading of software and hardware, etc. The cost of repairs and replacements are borne by MNTC.

- Improvements and expansions, which include the upgrading of toll plazas and interchanges, including equipping new toll lanes as required. Costs associated with these improvements and expansions are to be borne by MNTC.

The Skyway Project

MPIC, through its subsidiary, Metro Strategic Infrastructure Holdings, Inc. ("MSIHI"), is in discussions with its joint venture partners to significantly increase its current minority interest in Citra Tollways. Citra Tollways is the franchise holder for the Skyway project, a planned system of elevated and at-grade roadways extending from Alabang, the terminus of the SLEX to Buendia Avenue in Makati City. However, the terms of this acquisition have not been finalised and there is no assurance that the increase in MPIC's interest will proceed as planned or at all. See "— Recent Developments".

NLEX-Skyway-SLEX Connector Project

Metro Pacific Tollways has completed pre-feasibility study for the NLEX-Skyway-SLEX Connector Project, an elevated, 13 kms, four-lane expressway connecting the terminus of the NLEX at Road C-3 in Caloocan City with the terminus of the Skyway system at Buendia Avenue in Makati City, Metro Manila. By connecting the NLEX with a completed Skyway project, the NLEX-Skyway-SLEX Connector project would provide a direct link between the two major expressway systems. The NLEX-Skyway-SLEX Connector would utilise the existing right-of-way owned by the Philippine National Railways. The proposal for this project has been submitted to the Philippine government. See "— Recent Developments".

Toll Road Operations and Maintenance Services

TMC is the operations and maintenance provider for the NLEX and the SCTEx.

North Luzon Expressway

On 6 July 2001, TMC entered into an Operation and Maintenance Agreement (the "Toll Road O&M Agreement") with MNTC to provide toll collection services, money handling, repairs and maintenance, and safety and traffic management in respect of the completed Phase I of the NLEX until 31 December 2037. Pursuant to the Toll Road O&M Agreement, TMC provides MNTC with the following operation and maintenance services with respect to the NLEX:

- collection of tolls from motorists at toll plazas, both in cash and electronic form, including the sale of pre-paid toll cards and electronic toll collection subscription products at point of sale outlets;

- routine maintenance and repairs of the road, toll facilities and related equipment; and

- management of the NLEX in order to, among other things, improve traffic flows, maintain road safety, and enhance the facilities and services along the NLEX.

SCTEx

In December 2007, the concessionaire for the SCTEx, the Bases Conversion and Development Authority ("BCDA") selected the consortium of First Philippine Holdings Corporation, Egis Road Operation, and TMC as interim service provider for the six months following the planned opening of the SCTEx in March 2008. The SCTEx is a 94-kms, four-lane expressway north of Manila, connecting the Subic Bay Freeport Zone in Zambales with the NLEX near the Clark Special Economic Zone in Angeles City and extending to the Central Techno Park in Tarlac City and is the longest toll expressway in the Philippines. Together with the NLEX, the SCTEx significantly reduces travel times between Manila, Subic, Clark and Tarlac.

Under the terms of the SCTEx operation and maintenance agreement, the consortium was tasked with the management and operation of the SCTEx, including toll collections, traffic safety and security, road and facility maintenance, including greenery and landscaping, and management and support services. The operation and maintenance agreement was renewed for an additional six months at the end of the initial six-month term in October 2008, and was subsequently extended for one more year until April 2010. Thereafter, the operation and maintenance agreement was renewed every month pending MNTC's takeover as BCDA's private sector partner for SCTEx. TMC intends to bid to be the long-term service provider for the SCTEx.

On 16 September 2009, MPIC announced that, through its wholly-owned subsidiary MPTDC, it had submitted an unsolicited proposal to the BCDA to acquire all of the BCDA's usufructuary title, rights and interests in the SCTEx, including the right to operate, maintain and collect toll fees from the SCTEx. BCDA chose to conduct a public bidding to select a private sector partner for the SCTEx. MPTDC participated in the public bidding and assigned its subsidiary, MNTC, as the bidding entity. MNTC was awarded the concession on 9 June 2010. Under the terms of the concession contract, BCDA will lease the SCTEx to MNTC and assign to it the concession to manage, operate and maintain the tollway for a period of 25 years, subject to renewal for a further eight years.

Electricity Distribution

Meralco is a Philippine corporation with its shares listed on the PSE. It acts as the buying, billing, collecting and customer service agent for the electricity supply chain and is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kms, where approximately a quarter of the total Philippine population resides. Meralco's market is categorised into residential, commercial, industrial and streetlights comprising a customer base of approximately 4.7 million as at 30 June 2010. In addition to electrical distribution, Meralco undertakes several related businesses, including operating a fiber optic network and providing leased line connections, metro ethernet connections and disaster recovery transport services.

On 1 March 2010, MPIC, PCEV (an indirect subsidiary of PLDT) and Beacon Electric Asset Holdings, Inc ("Beacon") (a special purpose vehicle set up with the sole purpose of holding shares in Meralco, which is currently owned by MPIC and PCEV on a joint basis) entered into an omnibus agreement (the "Omnibus Agreement") to restructure their shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and PCEV would consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon; thus giving Beacon an approximately 28.2% interest in Meralco and (b) PCEV will acquire a 50% interest in Beacon, which will in turn become a 50:50 joint venture between MPIC and PCEV. Under the Omnibus Agreement, MPIC and PCEV have agreed to define their agreement in respect of, amongst other matters, the capitalisation, organisation, conduct of business and the extent of their participation in the affairs of Beacon and through Beacon, their respective involvement in Meralco. See "*Recent Developments — Consolidation of Interests in Meralco*".

The Franchise

On 9 June 2003, then President Gloria Macapagal-Arroyo signed into law Republic Act ("RA") No. 9209, otherwise known as the "Manila Electric Company Franchise" which took effect on 28 June 2003 and which granted Meralco a 25-year franchise to construct, operate, and maintain an electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in Batangas, Laguna, Pampanga, and Quezon.

On 20 October 2008, the Energy Regulatory Commission ("ERC") granted Meralco a consolidated CPCN for the operation of electric service within its franchise coverage, effective until 28 June 2028, to coincide with Meralco's congressional franchise.

Distribution System

Service Voltage and Power Supply

Power is received at 230 kV and 115 kV through 15 major delivery point substations and then delivered to the customers at the primary service voltages of 115 kV, 69 kV, 34.5 kV, 13.8 kV, 13.2 kV and 6.24 kV wye-grounded, and secondary service voltages of 460 volts (three-phase) and 230 volts (single-phase or three-phase). System frequency is 60 Hz.

Power Network

As at 30 June 2010, Meralco had a total of 116 substations with a combined capacity of 14,418 mega volt ampere. Power is distributed through its 15,959 circuit kilometers of sub-transmission and distribution lines.

Distribution is predominantly through an overhead radial system with provision for interconnection, but there are pockets of underground and secondary network systems.

Call Centre

As at 30 June 2010, Meralco had a call centre that handles operation-related reports, complaints and inquiries, as well as service-related concerns such as billing, payments and service application, reports on power outages, line troubles, defective facilities and streetlights, and pilferage.

Business Centres

As at 30 June 2010, Meralco's 30 business centres, 7 auxiliary business centres, and 16 extension offices were positioned across its 9,337 square kms of franchise area for delivery of customer services to its 4.7 million customers.

Rate Structure and Regulation

The rates charged by Meralco are subject to approval by the ERC. In 2009, Meralco implemented rates set under a new regime called Performance-Based Regulation ("PBR"). PBR, which applies to Meralco and other private distribution utilities ("DUs"), has become the new ethic and metric, which governs Meralco's rate setting mechanism.

Under the PBR regime, the ERC evaluates and conducts public consultations on the distribution utility's application on forecasted levels of capital and operating expenditures, prior to approving the rates that the distribution utility will charge for a four-year regulatory period. PBR has replaced the return-on-rate base ("RORB") as the methodology for adjusting distribution charges. Whereas RORB was retrospective, PBR is prospective. Under the PBR regime, the ERC evaluates and conducts public consultations on the DU's application on forecasted levels of capital and operating expenditures, prior to approving the rates that the DU will charge for a four-year regulatory period. Under the superseded RORB policy, the DU first undertakes the capital and operating expenditures, seeks recovery of these through a rate petition with the ERC. Thereafter, the ERC decides on a rate adjustment. Meralco was granted rate increases in May 2009 and January 2010. On 18 June 2010, Meralco filed its PBR rate application for the third regulatory period (July 2011-June 2015). Public hearings shall be conducted thereafter.

Aside from a new rate setting regime, the PBR has also introduced the guaranteed service levels scheme (the "GSL"), a rewards and fines programme. Under the GSL utilities are required to make cash payments to customers whenever service levels and results fall below standards prescribed by ERC. An allocation of 0.5% is added to the annual revenue requirement and represent the GSL allowance. DUs shall use this additional allocation to pay-out penalty amounts or to effect network and service improvement to avoid penalty payouts.

Industry Reform

Under the Philippine Electric Power Industry Reform Act of 2001 ("EPIRA"), the Philippine power industry is undergoing a fundamental restructuring including:

- the deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- the privatisation of the NPC's power generation assets and independent power producers contracts;
- the unbundling of the costs constituting the power supply chain and the reflection of these separate costs in the bills provided to consumers;
- the freedom of customers to choose among electricity suppliers;
- subject to certain conditions, the open and non-discriminatory access in the networks of distribution utilities;
- the implementation of a wholesale electricity spot market; and
- the removal of inter-grid, intra-grid and inter-class cross subsidies.

Industry reforms have and will continue to require significant changes in Meralco's business.

Electricity Rates

Meralco's tariff consists of charges for distribution, supply and metering for different classes of customers. It also bills its customers for certain taxes, subsidies and pass-through components consisting of generation, transmission and system loss charges.

Tariff Categories

Different tariffs are applicable to distinct customer groups categorised by the purpose of use and load characteristics. The tariff will also vary according to voltage level of the electricity consumed.

Residential Service — The residential rate class applies to residential customers using electricity for all domestic purposes in a single family dwelling, to individually metered apartments with facilities for not more than a three family structure or compound which are used in common when connected to the meter serving one of the apartments, to residential family dwellings in a family compound served under a single meter and to temporary service for the construction of a single family dwelling.

General Service — The general service rate class applies to non-industrial and industrial customers with a connected load of less than 40 kilowatts.

General Power — The general power rate class applies to non-industrial and industrial customers with a minimum connected load of 40 kilowatts.

Non-industrial Service — Non-industrial customers are those whose main economic activity is agriculture, construction, trading, transportation operation and administration, communication services, storage and warehousing, waterworks and supply, financial services, real estate, restaurant and hotel services, and other community, social, and personal services.

Industrial Service — Industrial customers are those whose main economic activity is mining and quarrying, manufacturing and processing, electricity generation and distribution, and gas and steam manufacturing.

Government Hospitals, Metered Streetlights and Charitable Institutions — This rate class applies to government-owned metered streetlighting services for public streets, to government-owned hospitals duly registered and certified by the Bureau of Medical Services, to parks under the National Park Development Authority, to facilities of charitable institutions duly registered and certified by the Department of Social Welfare and Development and to all government-owned traffic lights within Meralco's franchise area.

Flat Streetlighting Service — The flat streetlighting rate class applies to street lamps that are installed by Meralco, with such street lamps charged at a fixed monthly rate.

Generation and Transmission Charge

The generation charge is a pass-through component of the Meralco tariff. The level of the generation charge is adjusted on a monthly basis as prescribed by the ERC's "Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities" ("AGRA"), as amended. Generation charge or the price for electricity supply from the power plants, which is the largest bill component, is the main driver of electricity rates.

The transmission charge is another pass-through component of the Meralco tariff. Transmission charges are adjusted on a monthly basis in accordance with the ERC's order prescribing "Guidelines for the Adjustment of Transmission Rates by Distribution Utilities" ("TRAM"), as amended.

Ecozone Industrial Rates

The ecozone industrial rates is a special generation rate for high load factor industrial customers accredited by the Philippine Economic Zone Authority ("PEZA"). The rate option was initially intended to specifically benefit PEZA-accredited industrial customers, to allow them to become more globally competitive. The 80% high load factor requirement was meant to help the NPC, Meralco's main electricity supplier, identify baseload plants that could guarantee sustained low generation costs that, in turn, could be passed-on to eligible customers with the same load factor within the Meralco franchise. In turn, NPC would be provided committed annual volumes at the wholesale level.

Lifeline Rate

The EPIRA provides for a socialised pricing mechanism for marginalised electricity consumers. In the case of Meralco, residential customers consuming 100 kilowatt hours ("kWh") and below enjoy discounts on their electric bills.

The lifeline discount is applied to the generation, transmission, system loss, distribution, supply and metering charge components of a lifeline customer's bill.

Under the current lifeline rate structure, nearly two million of Meralco's residential customers enjoy the lifeline rate and more than 300,000 Meralco residential customers consuming within 20 kWh per month will enjoy a 100% lifeline discount (with the exception of a ₱5 metering charge).

System Loss Charge

The system loss charge recovers the energy costs resulting from system losses. As a pass-through charge mandated by law, it is revenue neutral for Meralco if this is within the system loss cap. Meralco bears loss beyond the mandated system loss cap. The level of system loss charge is adjusted on a monthly basis as prescribed by the ERC under the AGRA. There are two types of system loss:

Technical Loss — Technical loss is inherent in the delivery of electrical energy. It is the energy lost as heat in the conductors and equipment of the distribution system.

Non-technical Loss — Non-technical loss is the electricity lost through theft or pilferage and errors in meter reading and billing.

Beginning January 2010, as a private DU, Meralco is subject to a system loss cap of 8.5% of the total electricity purchased.

Electricity Suppliers

Meralco currently does not operate any electricity generating facilities and it relies on external suppliers for its energy requirements.

The NPC is Meralco's largest electricity supplier, providing approximately 34.4% of Meralco's energy requirements in 2009. Meralco also purchases energy from the Wholesale Electricity Spot Market as well as from a number of independent power producers.

Healthcare

MPIC holds its healthcare assets through its 35.1% ownership interest in Medical Doctors, Inc. ("MDI"), its 34.9% interest in Davao Doctors Hospital (Clinica Hilario) Inc. ("DDH") and its 51.0% interest in Riverside Medical Center Inc. ("RMCI"). Through MDI, MPIC participates in the operation and management of two medical centres in Metro Manila: Makati Medical Center and Cardinal Santos Medical Center. Through its interest in DDH and RMCI, MPIC participates in the management and operation of Davao Doctors Hospital in Mindanao and Riverside Medical Center in Visayas, respectively. MPIC is the single largest shareholder in each of MDI, DDH and RMCI and is well positioned to provide modern professional management skills and expertise to the hospitals, whose other shareholders are largely the doctors who founded the hospitals.

Makati Medical Center

Makati Medical Center is a multi-specialty tertiary medical centre situated in the central business district of Makati, Metro Manila with an authorised bed capacity of 600 beds and with more than 1,100 physicians. Its operations and services are complemented and supported by the MMC College of Nursing, Inc. (formerly Remedios T. Romualdez Memorial School Inc.), a wholly-owned subsidiary of MDI operating a comprehensive nursing training facility for approximately 750 nursing students, and Computerized Imaging Institute Inc., a 60% owned subsidiary of MDI providing technologically-advanced medical imaging services.

In December 2008, Makati Medical Center completed a new, ₱2.0 billion 14-storey annex building. The new annex houses all-new operating theatres, birthing and maternity rooms, modern diagnostic and ancillary centers, and other specialty units offering a multi-disciplinary and integrated approach to patient care. Additionally, the annex features basement parking facilities supporting the clients and staff of both the medical centre and the annex.

The average occupancy rate (based on the average number of beds occupied per day) at Makati Medical Center for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately 74% and 73%, respectively.

Cardinal Santos Medical Center

Cardinal Santos Medical Center is a 245 bed tertiary hospital situated in San Juan City, Metro Manila and is owned by the Roman Catholic Archbishop of Manila (RCAM). It is operated and managed by MDI's wholly owned subsidiary, Colinas Verdes Hospital Managers Corporation (CVHMC), by virtue of a 20-year contract awarded by RCAM in February 2009. MDI, through CVHMC, has committed to make significant improvements and upgrades to the centre's facilities and equipment in order to enhance the range and quality of medical services offered.

The average occupancy rate (based on the average number of beds occupied per day) at Cardinal Santos Medical Center for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately 60% and 54%, respectively.

Davao Doctors Hospital

DDH is considered to be the largest and one of the best medical facilities offering modern diagnostic, therapeutic and intensive care services in Southern Philippines, with an authorised bed capacity of 250 beds. DDH also owns a teaching institution, Davao Doctors College, which has approximately 1,900 students and offers courses in nursing, radiologic technology, physical therapy, and other health courses.

The average occupancy rate (based on the average number of beds occupied per day) at DDH for the year ended 31 December 2009 and the six months ended 30 June 2010 was approximately 82% and 68%, respectively.

Riverside Medical Center Inc.

In May 2010, MPIC completed the acquisition of a 51.0% equity interest in RMCI, the largest hospital in Bacolod City, Negros Occidental, with an authorised bed capacity of 300 beds. RMCI, through its 100%-owned subsidiary — Riverside College, Inc., also runs a nursing school, which currently has approximately 2,000 students.

Ports

In October 2009, the Philippine Ports Authority (the "PPA") awarded to MPIC and Harbour Center Port Terminal, Inc. ("HCPTI") the development, management, operation and maintenance of the North Harbour for a period of 25 years. Under the contract Manila North Harbour Port, Inc. ("MNHP"), the joint venture company incorporated by MPIC and HCPTI, will have the obligation to modernise, operate and maintain the port facilities, in exchange for the right to collect fees from users of the port facility, including stevedoring, arrastre and cranage fees for the handling of cargo, storage fees and terminal fees for passengers. The cost of the proposed North Harbor rehabilitation and expansion project is estimated at ₱14.5 billion, and will involve re-arrangement of the existing ports and expansion of its operational area, from 52 hectares to 70 hectares. Following a series of delays, MNHP took control of the port operations in April 2010. On 28 June 2010, with the prior approval of the PPA, MPIC completed its sale of its entire interest in MNHP, representing 35% of the outstanding capital stock of MNHP, to HCPTI. See "Recent Developments — Divestment of interest in MNHP".

CONSUMER FOOD PRODUCTS — INDOFOOD

First Pacific's consumer food products business is conducted through Indofood, its 50.1% subsidiary.

Indofood is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: CBP (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Indofood's common shares are listed on the Indonesia Stock Exchange. For the year ended 31 December 2009, Indofood had consolidated net sales and net income of Rp37,140.8 billion (US$3,588.7 million) and Rp2,075.9 billion (US$200.6 million), respectively, (calculated on the basis of Indonesia GAAP). For the six months ended 30 June 2010, Indofood had consolidated net sales and net income of Rp18,122.6 billion (US$1,968.1 million) and Rp1,410.5 billion (US$153.2 million), respectively, (calculated on the basis of Indonesia GAAP). For the year ended 31 December 2009, the EBITDA of Indofood was Rp6,623.4 billion (US$640.0 million). For the six months ended 30 June 2010, the EBITDA of Indofood was Rp3,758.4 billion (US$408.2 million).

Consumer Branded Products

Indofood's consumer branded products group (the "CBP Group") comprises five separate divisions: noodles, dairy, food seasonings, snack foods and nutrition & special foods, with the dairy division having been added to the CBP Group following the completion of acquisition of PT Indolakto ("Indolakto") in December 2008. The CBP Group contributed to 43.4% of Indofood's net sales for the year ended 31 December 2009 and 47.6% of Indofood's net sales for the six months ended 30 June 2010.

In 2009, Indofood restructured the CBP Group, consolidating all consumer branded product subsidiaries into a separate single entity, PT Indofood CBP Sukses Makmur ("ICBP"), established in September 2009. In addition, Indofood also integrated the biscuit division (previously under Bogasari group) into ICBP. The restructuring was completed on 17 March 2010. Then, ICBP proceeded to spin off and list its shares on the Indonesia Stock Exchange. ICBP issued a preliminary offering circular in relation to the proposed offering of shares of ICBP subject to applicable laws and regulations in early September 2010. The offer size for the ICBP offering announced is for 1,166,191,000 new shares of ICBP to be offered in the proposed initial public offering. The offer size of 1,166,191,000 ICBP shares would represent: (a) 25% of the issued share capital of ICBP prior to the initial public offering; or (b) 20% of the enlarged issued share capital of ICBP upon the completion of the initial public offering. Upon completion of initial public offering, ICBP will remain a subsidiary of First Pacific. Indofood will hold approximately 80% of the issued share capital of ICBP immediately following completion of the initial public offering, with the remaining approximately 20% held by subscribers to the offering and other public shareholders. See "*Recent Developments — Restructuring of CBP Group for Purpose of Spin-off*" for further information.

Noodles

Indofood is one of the world's largest instant noodle producers, operating 16 production plants in Indonesia and Malaysia with annual capacity in excess of 15 billion packs a year. It offers a variety of noodle products, including instant bag noodles, instant cup noodles, egg noodles and instant vermicelli, under various brands to cater to different market segments. Indofood's major brands include Indomie, Supermi, Sarimi, Sakura, Pop Mie, Mi Telur Cap 3 Ayam and Pop Bihun. These major brands are leading household names in Indonesia and most of them have been in existence for many years.

Indofood's food ingredients division, which is a part of its noodle operations, produces food ingredients primarily for Indofood's noodle products and also sells to related and third parties.

Indofood also operates a packaging business as part of its noodles division which produces a wide range of flexible and corrugated packaging for (i) Indofood's food products, including noodles, dairy products, food seasoning products, snack foods, speciality foods for infants and children and milk products for expectant and lactating mothers, (ii) the Indofood group, and (iii) other customers, both in Indonesia and other countries. Indofood's corrugated packaging business is operated through its 60% owned indirect subsidiary PT Surya Rengo Containers, a joint venture with Rengo Company Limited, Japan.

Substantially all of Indofood's noodle sales are instant noodle products sold through its network of distributors.

Dairy

Indofood completed the acquisition of Indolakto in December 2008, enlarging the CBP Group's product portfolio to include dairy products. Indolakto is one of the largest producers of dairy products in Indonesia, producing sweetened condensed milk, ultra high temperature milk, sterilised bottled milk, pasteurised liquid milk and powdered milk, ice cream, yoghurt drink and butter. Indofood's major brands include Indomilk, Cap Enaak, Indoeskrim, Nice yogurt and Orchid butter.

Food Seasonings

The food seasonings division manufactures a wide range of culinary products, of which chilli sauce and instant seasonings are the most popular. The division also produces soy sauce, tomato sauce and bouillion. Its Indofood, Piring Lombok, branded products are marketed by PT Nestlé Indofood Citarasa Indonesia, a joint venture company between Indofood and Nestlé. The division also manufactures, markets and sells syrups under the Indofood brand.

Snack Foods

The snack foods division produces a range of snack food products including potato chips, traditional Indonesian cassava chips and other extruded snack products, as well as variety of biscuits and sandwich crackers. Their products are marketed under various brands, include Chitato, Qtela and Trenz, as well as brands such as Lays and Cheetos licensed from Pepsico Inc., an affiliate of Indofood's joint venture partner Seven-up BV. Our snack foods, except biscuits, are produced by our 51% owned subsidiary Indofood Fritolay.

Nutrition & Special Foods

The nutrition & special foods division produces foods for babies and children, as well as milk for expectant and lactating mothers. Growth of the baby food industry has been driven by improvement in domestic economic conditions and increasing public awareness of the nutritional needs of babies.

Bogasari

Bogasari is the largest integrated flour miller in Indonesia. Its flour mills located in Jakarta and Surabaya have a combined annual effective milling capacity of 3.2 million tonnes of wheat flour. It also manufactures pasta for both domestic and international markets. Bogasari runs shipping and packaging businesses to support its core operations. Bogasari accounted for 28.3% of Indofood's net sales for the year ended 31 December 2009 and 25.6% of Indofood's net sales for the six months ended 30 June 2010.

Indofood produces several grades of flour which vary based on protein content and the end-user market. Indofood also produces pasta using semolina flour milled from specially imported durum wheat. In addition, Indofood produces by-products, principally bran, pollard and pellet, which are sold as component ingredients for animal feed for both the domestic and export markets.

Indofood's products are distributed primarily under the *Segitiga Biru*, *Cakra Kembar* and *La Fonte* brands.

Agribusiness

The Agribusiness group consists of three divisions: Plantations, Cooking Oils and Fats and Commodities, which operate through Indofood's 58.2% owned Singapore listed subsidiary Indofood Agri Resources Ltd. ("IndoAgri") and IndoAgri's 58.8% owned Indonesia-listed subsidiary, PT PP London Sumatra Indonesia Tbk ("Lonsum"). The Agribusiness group is a market leader in Indonesia's branded cooking oil and margarine segment.

The Agribusiness group is a vertically integrated business producing a number of leading brands derived from palm oil. Its operations cover the whole value chain from research and development, oil palm seed breeding and cultivation to milling, refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. It also operates sugar cane, rubber, coconut, cocoa and tea plantations and owns processing plants for these crops.

The Agribusiness accounted for 20.5% of Indofood's net sales for the year ended 31 December 2009 and 19.0% of Indofood's net sales for the six months ended 30 June 2010.

Plantations

As at 30 June 2010, IndoAgri and Lonsum had a combined planted area of 231,307 hectares. Oil palm is the dominant crop, with a planted area of 195,522 hectares, of which 40% are below the seven year peak yield age for oil palm. The plantation division operates 20 palm oil mills across Sumatra and Kalimantan with a total annual processing capacity of 4.5 million tonnes of fresh fruit bunches per year. It also operates four crumb rubber factories, three sheet rubber factories, a cocoa factory, a tea factory and a sugar factory. A sugar mill is currently under construction in South Sumatra and is expected to commence operations before the end of 2010.

Cooking Oils and Fats

The cooking oils and fats division manufactures cooking oils and fats, and markets products under various brands for both export and domestic consumption. IndoAgri's main premium branded products, Bimoli (for cooking oil) and Simas Palmia (for margarine), have leading market shares in their respective branded segments, respectively, in Indonesia. In 2009, approximately 75% of margarine and shortening sales were in industrial packs supplied to domestic bakeries, snack and biscuit manufacturers.

The division operates four refineries located strategically in major cities across Indonesia: Jakarta, Surabaya, Medan and Bitung. The total current combined refinery capacity is approximately 1 million tonnes per year as of 30 June 2010.

Commodities

The commodities division mainly produces crude coconut oil and derivative products, most of which are exported to the United States, Europe and Asia. The division operates three copra-crushing plants located at Bitung in North Sulawesi, Moutong in Central Sulawesi and Tobelo in North Maluku, with a combined annual production capacity of 270,000 tonnes.

Distribution

The distribution group is a major component of Indofood's integrated chain of operations as it has extensive distribution network in Indonesia. It distributes the majority of Indofood's consumer products and third-party products across the archipelago. Indofood increased its products' market penetration and service standard through its stock points located in areas with a high density of retail outlets, which ensure product availability and product freshness. To further improve product visibility and increase availability, the group engaged merchandisers and canvassers, in conjunction with joint marketing efforts and promotions with its principals. The implementation of a new IT system since 2008 has complemented the distribution strength.

The distribution business accounted for 7.8% of Indofood's net sales for each of the year ended 31 December 2009 and for the six months ended 30 June 2010.

NATURAL RESOURCES — PHILEX

First Pacific, through its 31.4% economic interest in Philex (with Two Rivers, an affiliate of First Pacific also holding a 15.0% interest in Philex), is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex has been conducting its mining operations primarily at the Padcal Mine and is also currently aiming to develop the Silangan Project.

Philex's common shares are listed on the PSE. For the year ended 31 December 2009, Philex had consolidated revenues of approximately ₱9.1 billion (US$189.4 million) (calculated on the basis of PFRS). For the six months ended 30 June 2010, Philex had consolidated revenues of approximately ₱4.9 billion (US$106.1 million) (calculated on the basis of PFRS). For the year ended 31 December 2009, the EBITDA of Philex was ₱4.2 billion (US$87.0 million). For the six months ended 30 June 2010, the EBITDA of Philex was ₱1.8 billion (US$39.6 million).

Padcal Mine

The Padcal Mine, which Philex has been operating since 1958, is the first underground block cave operation in the Far East. The mine produces copper concentrates, containing copper, gold and silver. A majority of the copper concentrates are shipped to Saganoseki, Japan for smelting by Pan Pacific Copper Company Limited, a joint venture company between Nippon Mining Co. Ltd. and Mitsui Mining and Smelting Co., Ltd.

The Padcal Mine is under 12 mineral holdings with an aggregate 95 hectares in Benguet Province, which are subject to royalty agreements with claim owners.

In 2009, the operating life of the Padcal Mine has been extended from 2014 to 2017 based on the proven mineral reserves of 69 million tonnes from a resource of 156 million tonnes. As of 30 June 2010, the mine has proven mineral reserves of 65 million tonnes from a resource of 153 million tonnes.

Silangan Project

Located in Surigao del Norte, Northern Mindanao in the Philippines, the Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver.

In February 2009, Philex consolidated its interest in the Silangan Project by purchasing the remaining 50% equity interest held by Anglo American Exploration BV and Anglo American Exploration (Philippines) Inc. for a consideration of US$55 million.

A pre-feasibility study on the Silangan Project Boyongan deposit in October 2008 concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 0.87% copper and 1.39 grams per tonne of gold.

The preliminary mineral resource estimates for Bayugo were completed in November 2009, with indicated mineral resources of 85.7 million tonnes with 0.88% copper and 0.73 grams per tonne of gold and inferred resources of 32.7 million tonnes with 0.75% copper and 0.63 grams per tonne of gold. Drilling of the Silangan Project Bayugo deposit to define further the mineralisation limits and to upgrade the resource to measured from indicated has been completed and is now in the process of resource estimation.

Other Operations

Philex holds investments in oil properties owning participation in several service contracts.

In 2007, Philex incorporated Philex Petroleum Corporation ("PPC") to engage in the petroenergy business. Forty-nine per cent. of PPC was subsequently acquired by Anatolian Property BV, a Netherlands company. In July 2009, Philex purchased Anatolian Property BV's 49% interest in PPC, giving it full control over PPC. PPC in turn holds 38.8% of Forum Energy plc ("FEP"), a UK-based oil exploration company owning participation interests in several service contracts in the Philippines, particularly Service Contract 72 which covers the "Sampaguita" natural gas deposit in the Northwest Palawan province of the Philippines. As FEC Resources, Inc., a 51.2% owned subsidiary of Philex, also owns 25.6% of FEP, the total holdings of Philex in FEP aggregates to 64.4%.

In March 2009, Philex acquired 14 million shares in Pitkin Petroleum Plc ("Pitkin") for US$14 million, increasing its interest in Pitkin to 21%. Pitkin is an United Kingdom registered company primarily focused on oil and gas exploration in the Pacific Rim region, with operations in Vietnam, the Philippines, Peru and the United States of America. Pitkin is involved throughout the exploration and production value chain, with equity interests in production, a potential re-development project and operates an active exploration programme.

On 4 June 2010, Philex indicated the possibility of spinning off its hydrocarbon assets (which are held under PPC) and moving them away from the mining business. See "Recent Developments - Potential Spin-off of Hydrocarbon Assets".

LEGAL PROCEEDINGS

From time to time, the Group, PLDT and Philex may be involved in litigation or proceedings arising in the ordinary course of business. Other than as disclosed below, First Pacific believes that neither the Group, PLDT nor Philex is involved in any litigation which would have a material adverse effect on the business or financial position of the Group.

PLDT

NTC supervision and regulation fees ("SRF")

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court of the Philippines. 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 28 July 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 4 December 2007, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on 29 February 2008, the NTC assessed the total amount of SRF due from PLDT to be approximately ₱2.9 billion, which included penalties and interest. On 3 April 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of approximately ₱0.5 billion, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of approximately ₱2.9 billion which included penalties. In letters dated 14 April 2008 and 18 June 2008, the NTC demanded payment of the balance of its assessment.

On 9 July 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 29 February 2008, and demand letters dated 14 April 2008 and 18 June 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. On 8 September 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment on the Petition. On 22 September 2008, PLDT filed its Reply (to the comment of the NTC). The Court of Appeals, in its Decision dated 25 May 2010, granted PLDT's Petition and set aside/annulled the NTC's letters of assessments dated 29 February 2008, 14 April 2008 and 18 June 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 received a copy of the petition on 16 July 2010. PLDT is still waiting for the order of the Supreme Court to file its comment.

Matters Relating to a Third Party Aggregator

In late 2009, PLDT informally received a communication which provided a complaint (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 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, 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 such 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 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 7 May 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee. No provision has been made related to this matter.

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.

Arbitration with Eastern Telecommunications Philippines, Inc. ("ETPI")

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not settled all issues between the parties. Accordingly, to avoid further protracted litigation and simply improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. ETPI initially submitted its claims of about ₱2.9 billion against PLDT in arbitration proceedings; while PLDT, on the other hand, submitted its claims of about ₱2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

The Gamboa Case

A petition entitled *Gamboa v. Teves* (SC G. R. No. 176579) (the "Petition") was filed on or about 28 February 2007 by Wilson Gamboa against Department of Finance Secretary Magarito B. Teves and other members of the Privatization Council, Philippine Securities and Exchange Commission Chairperson Fe Barin, Philippine Stock Exchange President Francis Lim, First Pacific Chairman Anthoni Salim as Director of Metro Pacific Assets Holdings, Inc. ("MPAH"), PLDT Chairman Manuel V. Pangilinan as Managing Director of First Pacific and PLDT President Napoleon L. Nazareno. The Petition alleges that:

(i) the 1987 Philippine Constitution intended compliance with the 60%-40% Filipino/foreign ownership requirement it imposes on public utilities in Section 11, Article XII, to be computed based only on an utility company's common voting stock and not on its entire outstanding capital stock, notwithstanding Section 11's reference to "capital" generally, instead of to "voting stock";

(ii) the sale of the Philippine government's 46% interest in Philippine Telecommunications Investment Corporation ("PTIC"), which holds approximately 13.8% of the common stock of PLDT, to a foreign company, First Pacific, and its affiliates who already own the other 54% of PTIC will result in First Pacific and its affiliates effectively increasing their PLDT common stockholdings by 6.3%; and

(iii) foreigners already own more than 40% of PLDT's common stock and the sale referred to in (ii) will further increase the foreign ownership, and correspondingly further reduce the Filipino ownership, of PLDT's common stock by 6.3%.

For these reasons, the petitioner asked the Supreme Court to declare that a public utility company's compliance with the 60-40% nationality requirement must be computed based on its common voting shares only, and to annul all sales of PLDT common shares in excess of that 40% foreign ownership limit, and also the sale of the Philippine government's 46% interest in PTIC consisting of 111,415 PTIC shares (the "PTIC Shares").

The Petition also asked the Supreme Court of the Philippines to restrain and enjoin the Privatization Council from selling the PTIC Shares. The parties involved in the sale of the PTIC Shares did not receive notice of the Petition by the time the sale of the PTIC Shares was consummated in the morning of 28 February 2007. The respondents have cited both procedural and substantive grounds to justify dismissal of the Petition. The major procedural reason for dismissal is the fact that the Supreme Court is not the appropriate court and does not have jurisdiction over the type of suit filed by the petitioner. The principal substantive ground for dismissal is the absence of any law that would justify the taking of any shares from foreign shareholders in a company engaged in a nationalised or partly nationalised activity, even if the foreign shareholding exceeds the maximum limits imposed by law.

First Pacific has been advised by counsel that the procedural grounds alone cited by the respondents justify the dismissal of the Petition. First Pacific has likewise been advised that the Petition also lacks substantive merit.

INSURANCE

The Group, PLDT and Philex maintain insurance of the types and in amounts which the Group, PLDT and Philex believe to be adequate for their respective businesses in the jurisdictions where such businesses are operating. The Group and Philex do not carry, and PLDT carries only limited, business interruption insurance. For the most part, the coverage under these insurance policies is placed with reputable insurance agents with commercially reasonable deductibles and limits on coverage. Notwithstanding the Group's, PLDT's and Philex's insurance coverage, damage to the Group's, PLDT's and Philex's buildings, facilities, equipment, or other properties as a result of occurrences such as fire, floods, water damage, explosion, power loss, typhoons and other natural disasters could nevertheless have a material adverse effect on the Group's, PLDT's and Philex's financial condition and results of operations.

ENVIRONMENTAL MATTERS

First Pacific believes that the Group is in compliance in all material respects with applicable environmental regulations in its jurisdictions of operation. First Pacific is not aware of any environmental proceedings or investigations to which it is or might become a party.

EMPLOYEES

As at 30 June 2010, First Pacific had 70,365 employees on a consolidated basis. On a non-consolidated basis, First Pacific had 30 employees, of which seven were executives, ten were management/supervisory staff and 13 were support staff.

RECENT DEVELOPMENTS

Increase of interest in Philex

On 28 January 2010, Two Rivers completed its acquisition of an additional interest in Philex of approximately 5.9% at a total consideration of approximately ₱6.0 billion. The consideration is payable in four installments, the first installment of 10% was paid in January 2010 with the remaining 90% payable in three installments of 10%, 10% and 70% in January 2011, January 2012 and January 2013, respectively. The outstanding installment payment accrue interest at an interest rate of 5.5% per annum. The transaction increased Two Rivers' interest in Philex from approximately 9% to approximately 15%. In addition, the Group also holds an approximately 31.4% economic interest in Philex.

Consolidation of Interests in Meralco

On 1 March 2010, MPIC, PCEV (an indirect subsidiary of PLDT) and Beacon (a special purpose vehicle set up with the sole purpose of holding shares in Meralco, which is currently owned by MPIC and PCEV on a joint basis) entered into an Omnibus Agreement to restructure their shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and PCEV would consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon; thus giving Beacon an approximately 28.2% interest in Meralco and (b) PCEV will acquire a 50% interest in Beacon, which will in turn become a 50:50 joint venture between MPIC and PCEV. Under the Omnibus Agreement, MPIC and PCEV have agreed to define their agreement in respect of, amongst other matters, the capitalisation, organisation, conduct of business and the extent of their participation in the affairs of Beacon and through Beacon, their respective involvement in Meralco.

The above transactions involved (a) a sale by MPIC to Beacon of 163.6 million common shares of Meralco at a total consideration of ₱24.5 billion or ₱150 per share, (b) payment of cash by MPIC of ₱6.6 billion to Beacon, (c) a subscription by MPIC of 1,156.5 million common shares of Beacon at a price of ₱20 per share and 801 million preferred shares of Beacon at a price of ₱10 per share at a total consideration of ₱31.1 billion, (d) a sale by PCEV of 154.2 million common shares of Meralco to Beacon at a total consideration of ₱23.1 billion or ₱150 per share, (e) a subscription by PCEV of 1,156.5 million common shares of Beacon at a total consideration of ₱23.1 billion or ₱20 per share and (f) a sale by MPIC of 12,500 common shares of Beacon to PCEV at a consideration of ₱12,500 or ₱1.00 per share. No gain or loss was recorded by the MPIC and PCEV from these transactions.

In addition, MPIC assigned to Beacon a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by FPHC. FPHC granted the call option to Beacon on 1 March 2010 in return for ₱3 million consideration. The exercise price for the call option is ₱300 per Meralco share and the call option exercisable at any time from 15 March 2010 to 15 May 2010. On 23 March 2010, the boards of MPIC and Beacon decided to exercise the call option subject to approval by First Pacific's shareholders in a special general meeting. On 30 March 2010, Beacon exercised the call option in full at a total purchase consideration of ₱22.4 billion.

As at the date of this Offering Circular, Beacon held 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco.

As a result of the consolidation of the foregoing interests of MPIC and PCEV in Meralco through Beacon, a 50:50 joint venture between MPIC and PCEV, each of MPIC and PCEV accounts for Beacon/Meralco on its respective books using the equity method.

Proposed Investment in Manila's Skyway Toll Road Project

MPIC, through its subsidiary of MSIHI, is in discussions with its joint venture partners to significantly increase its current minority interest in Citra Tollways. On 26 August 2010, MPTC announced its acquisition from Cesar T. Quiambao his entire ownership stake in MSIHI equivalent to 148,000 shares or 0.98% indirect equity interest in Citra Tollways for ₱51.05 million. Citra Tollways is the franchise holder for the Skyway project, a planned system of elevated and at-grade roadways extending from Alabang, the terminus of the SLEX, to Buendia. Stage one of the Skyway system, which consists of an elevated, 9.2 kms, six-lane expressway from Bicutan to Buendia and an at-grade 13.8 kms expressway from Magallanes to Alabang, was completed and commenced operations in October 1999. Construction on stage two of the Skyway system, a 7.0 kms elevated toll road extending from Bicutan to Alabang, began in April 2009. Stage two of the Skyway system is projected to commence operations in the first quarter of 2011.

Restructuring of CBP Group for Purpose of Spin-off

In 2009, Indofood restructured the CBP group, consolidating all consumer branded product subsidiaries into a separate single entity, ICBP, established in September 2009. In addition, Indofood also integrated the biscuit division (previously under Bogasari group) into ICBP. The restructuring was completed on 17 March 2010. On 28 June 2010, First Pacific announced that ICBP formally submitted a listing application for the listing of and permission to deal in its shares to the Indonesia Stock Exchange. On 17 September 2010, First Pacific announced that subject to and conditional upon completion of the proposed separate listing and initial public offering of ICBP, First Pacific proposes to subscribe for and distribute to its shareholders in specie ICBP shares which will in aggregate represent approximately 1.5% of the total size of the initial public offering (approximately 17,492,865 shares in ICBP). Based upon the proposed offer price of Rp5,395 (equivalent to approximately US$0.6) per ICBP share under the initial public offering agreed in principle among ICBP, the underwriters and the agents for that offering, First Pacific proposes to subscribe for approximately 17,492,865 shares in ICBP for an aggregate consideration of approximately Rp94.4 billion (equivalent to approximately US$10.5 million). The final number of ICBP shares to be distributed per board lot of First Pacific shares held by qualifying shareholders and the other detailed terms and conditions of the proposed distribution in specie will not be known until completion of the initial public offering. Upon completion of initial public offering, ICBP will remain a subsidiary of First Pacific. Indofood will hold approximately 80% of the issued share capital of ICBP immediately following completion of the initial public offering, with the remaining approximately 20% held by subscribers to the offering and other public shareholders.

First Pacific Share Repurchase Programme and Dividend Policy

On 1 June 2010, First Pacific announced a programme for the repurchase of up to US$130 million in value of First Pacific's shares from the open market over a 24-month period. Since then, and up to 17 September 2010, First Pacific had spent approximately US$3.1 million to purchase approximately 4.4 million shares, representing approximately 0.11% of issued share capital.

Also starting from First Pacific's 2010 financial year, First Pacific has adopted a dividend policy of paying a dividend of at least 25% of recurring profits to its shareholders.

Potential Spin-off of Hydrocarbon Assets

On 4 June 2010, Philex indicated the possibility of spinning off its hydrocarbon assets, including 70% interest in a gas field that may be as large as the Malampaya gas project, which with an estimated reservoir of 2.7 trillion standard cubic feet which could be the largest gas field in the Philippines. It is proposed that Philex's hydrocarbon assets (which are held under PPC) be spun-off and moved away from the mining business. As at the date of this Offering Circular, the proposed spin off has not been finalised and there is no assurance that the proposed spin off will proceed.

The Connector Road Project

On 30 April 2010, MPIC, through MPTC, announced that it had formally submitted a proposal to link the NLEX with the SLEX to ease traffic flow in Metro Manila's thoroughfare, particularly for vehicles that are only through the metropolis. Under the proposal, connecting the NLEX with the SLEX would take approximately three and a half years after approval of the project. The project is expected to cost ₱17 billion. The proposal would involve the construction of a 13.2 kms elevated road along the railroad tracks between the NLEX at C3 and Skyway 1 at Buendia in Makati. MPTDC was notified in a letter dated 5 June 2010 from the Philippine Department of Public Works and Highways ("DPWH") that the proposal submitted was accepted by the DPWH.

Divestment of interest in MNHP

On 28 June 2010, with the prior approval of the PPA, MPIC completed its sale of its entire interest in MNHP, representing 35% of the outstanding capital stock of MNHP to HCPTI. The consideration received from the sale of MPIC's interest in MNHP to HCPTI was ₱350 million (consisting of the equivalent amount ₱245 million in cash consideration and a repayment of a loan in the amount of ₱105 million).

Construction of new terminal at Diosdado Macapagal International Airport in Clark, Pampanga City, Philippines

On 1 July 2010, MPIC disclosed that it has entered into discussions with San Miguel Corporation with regard to the construction of a new terminal at the Diosdado Macapagal International Airport in Clark, Pampanga City, Philippines. As at the date of this Offering Circular, the discussions held are still ongoing between the parties.

Reorganisation of the ePLDT group

On 7 July 2010, the Board of Directors of PLDT approved the reorganisation of the ePLDT group into two business groups: (i) the ICT business group which provides data centre services, internet and online gaming services and business solutions and applications; and (ii) the BPO business group which would cover customer relationship management or call centre operations under Ventus and Content Solutions, medical billing and coding and medical transcription services under SPi Technologies, Inc., or SPi. The BPO business group would be eventually transferred to PLDT subject to finalization of the terms and conditions thereof and execution of relevant agreements.

DIRECTORS AND SENIOR MANAGEMENT OF FIRST PACIFIC

Board of Directors

Anthoni Salim
Chairman

Age 61, born in Indonesia. Mr. Salim graduated from Ewell County Technical College in London. He is the President and CEO of the Salim Group, President Director and CEO of Indofood, and holds positions as Commissioner and Director in various companies.

Mr. Salim serves on the Boards of Advisors of several multinational companies. He was a member of the GE International Advisory Board, and is currently a member of the Advisory Board of ALLIANZ Group, an insurance company based in Germany. He joined the Asia Business Council in September 2004.

Mr. Salim is the son of Mr. Soedono Salim. He has served as a Director of First Pacific since 1981 and assumed the role of Chairman in June 2003.

Manuel V. Pangilinan
Managing Director and Chief Executive Officer

Age 63, born in the Philippines. Mr. Pangilinan received a BA from Ateneo de Manila University and an MBA from the University of Pennsylvania's Wharton School before working in the Philippines and Hong Kong for the PHINMA Group, Bancom International Limited and American Express Bank. He served as First Pacific's Managing Director after founding First Pacific in 1981, was appointed Executive Chairman in February 1999 and re-assumed the role of Managing Director and CEO in June 2003.

Mr. Pangilinan also served as President and CEO of PLDT since November 1998, and of Meralco since July 2010. He was appointed Chairman of PLDT in February 2004. He is the Chairman of Metro Pacific Investments Corporation, ePLDT, Inc., Smart, PCEV, Maynilad Water Services, Inc., Metro Pacific Tollways, MNTC, Philex, Landco, MDI (Makati Medical Center), Davao Doctors, Inc. and Colinas Verdes Corporation (Cardinal Santos Medical Center), Mediaquest Holdings, Inc., and Associated Broadcasting Corporation (TV 5). Mr. Pangilinan is also the President Commissioner of Indofood and a Director and CEO of Meralco. He is also the CEO for Philex.

In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante in recognition of his contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines ("MAP"). Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010, in Humanities by Holy Angel University in 2008, by Xavier University in 2007 and by San Beda College in 2002 in the Philippines. He was a member of the Board of Overseers of The Wharton School, University of Pennsylvania, and holds chairmanship in the Board of Trustees of San Beda College, non-profit organisations Philippine Business for Social Progress ("PBSP") and the Philippine Business for Education ("PBED"). Mr. Pangilinan is also the President of the Samahang Basketbol Ng Pilipinas (the national association for basketball) and is Chairman of the Amateur Boxing Association of the Philippines (the national association for boxing).

Robert C. Nicholson
Executive Director

Age 54, born in Scotland. Mr. Nicholson qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982. He was a Senior Partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department. He has had wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganisations and the privatisation of state-owned enterprises in the People's Republic of China.

Mr. Nicholson joined First Pacific's Board in June 2003 and was named an Executive Director in November 2003. He was a Senior Advisor to the Board of Directors of PCCW Limited between August 2001 and September 2003. He is an Independent Non-executive Director of QPL International Holdings Limited and Pacific Basin Shipping Limited, a Non-executive Director of India Capital Growth Fund Limited (listed on the AIM market of the London Stock Exchange) since November 2005. Mr. Nicholson serves as a Commissioner of Indofood, and is a Director of MPIC, Philex, Pitkin, Forum Energy Plc and Level Up! International Holdings Pte Ltd.

Edward A. Tortorici
Executive Director

Age 70, born in the United States. Mr. Tortorici received a BS from New York University and an MS from Fairfield University. Mr. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation.

Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specialising in strategy formulation and productivity improvement with offices in USA, Europe and the Middle East.

In 1987 Mr. Tortorici joined First Pacific as an Executive Director for strategic planning and corporate restructuring, and launched the Group's entry into the telecommunications and technology sectors. Presently, he oversees corporate strategy for First Pacific and guides the Group's strategic planning and corporate development activities. Mr. Tortorici serves as a Commissioner of Indofood; a Director of MPIC, Philex, Maynilad, and Landco and FEC Resources Inc. He also serves as a Trustee of the Asia Society and the Metropolitan Museum of Manila.

Napoleon L. Nazareno
Non-executive Director

Age 60, born in the Philippines. Mr. Nazareno graduated in 1970 from the University of San Carlos in Cebu with a Bachelor of Science degree in Mechanical Engineering. He received a Master's degree in Business Management from the Asian Institute of Management (AIM) in 1973. He also took the INSEAD Executive Programme at the European Institute of Business Administration in Fontainebleau, France in 1983.

In 1973, Mr. Nazareno worked as an Assistant Product Manager at the Flexible Packaging Division in Phimco Industries, Inc. and in 1981, he joined the international firm Akerlund & Rausing as Acting Production Manager. In 1989, he was named President and CEO of Akerlund & Rausing (Philippines). Mr. Nazareno served as President and CEO of Metro Pacific Corporation from 1995 to 1999.

In 1998, Mr. Nazareno became President and CEO of PCEV. He became President and CEO of Smart in 2000 and subsequently assumed the presidency at parent firm PLDT in 2004, positions he continues to hold concurrently. Mr. Nazareno is a Director of Meralco, and also a board member of the GSM Association Worldwide since November 2004. He joined First Pacific's Board in 2008.

Professor Edward K.Y. Chen, ***GBS, CBE, JP***
Independent Non-executive Director

Age 65, born in Hong Kong and educated at the University of Hong Kong and Oxford University. Professor Chen is an Independent Non-executive Director of Asia Satellite Telecommunications and Wharf Holdings Limited, and a Non-executive Director of eBizAnywhere Technologies Limited. He was a trustee for Eaton Vance Management Funds. Formerly, Professor Chen served as President of Lingnan University from 1995 to 2007, and Professor and Director of the Centre of Asian Studies of the University of Hong Kong; Chairman of Hong Kong's Consumer Council; as an Executive Councillor of the Hong Kong government; and as a Legislative Councillor. Professor Chen is now a Distinguished Fellow of the Centre of Asian Studies at the University of Hong Kong. Professor Chen joined First Pacific's Board in 1993.

Graham L. Pickles
Independent Non-executive Director

Age 53, born in Australia. Mr. Pickles holds a Bachelor of Business degree (majoring in accounting). He is a member of the Certified Practising Accountants of Australia, and is a Fellow of the Australian Institute of Directors. Mr. Pickles has significant experience in the distribution and technology sectors, running several distribution businesses in Asia and Australasia in the IT and telecommunications industries, over a career spanning more than 20 years.

Mr. Pickles serves as a Commissioner of PT Indofood Sukses Makmur Tbk and was appointed Chairman of Asia Pacific Brands India Limited in 2005. He was previously the CEO of Tech Pacific Holdings Limited, a wholly-owned subsidiary of First Pacific Company Limited until Tech Pacific was sold in 1997. Mr. Pickles was also a member of the executive committee of Hagemeyer N.V. in which First Pacific had a controlling interest until 1998. Mr. Pickles joined First Pacific's Board in 2004.

Sir David W.C. Tang KBE, ***Chevalier de L'Ordre des Arts et des Lettres***
Independent Non-executive Director

Age 55, born in Hong Kong. Sir David was educated locally and then Cambridge, London and Beijing, where he taught English and Philosophy at Peking University. Sir David is the founder of Shanghai Tang; the China Clubs in Beijing, Hong Kong and Singapore; China Tang in London and Pacific Cigars. He has been advisor or director to Blackstone, British Airways, Tommy Hilfiger and the Savoy Group of Hotels. Sir David joined First Pacific's Board in 1989.

Jun Tang
Independent Non-executive Director

Age 47, born in China. Mr. Tang is the President and CEO of Fujian New Huadu Industrial Group Company Limited and a Director of Hong Kong-listed Tsingtao Brewery Company Limited.

Mr. Tang was previously the President of Nasdaq-listed Shanda Interactive Entertainment Company Limited and the Honorary President of Microsoft China Company Limited. He served as the President of Microsoft China and the General Manager of Microsoft Global Technology Center from 1997 to 2002. Mr. Tang also served as the CEO of the Wicresoft, a joint venture company between Microsoft and the Shanghai government established in 2002. Mr. Tang joined First Pacific's Board in December 2009.

Ambassador Albert F. del Rosario
Non-executive Director

Age 70, born in the Philippines. The former Ambassador of the Republic of the Philippines to the United States of America from October 2001 to August 2006 earned his Bachelor's Degree in Economics at New York University. He is currently Chairman of Makati Foundation for Education, Philippine Stratbase Consultancy, Inc. and is President of Gotuaco, del Rosario Insurance Brokers, Inc., Philippine Telecommunications Investment Corporation. Ambassador del Rosario serves as Commissioner or Director in numerous companies and non-profit organisations including Indofood, PLDT, MPIC, Philex, BusinessWorld Publishing Corporation, ABC Development Corporation (ABC 5), Metro Pacific Tollways, Metro Pacific Tollways Development Corporation, MNTC, Asia Insurance (Philippines) Corporation, Landco, Mediaquest Holdings, Inc., Philippine Cancer Society and is a member of the Board of Trustees or Governors of the International Graduate University, Washington, DC, and Asia Society's International Council. He also headed the development of Pacific Plaza Towers, Metro Pacific Corporation's signature project in Fort Bonifacio's Global City.

In September 2004, Ambassador del Rosario was conferred the Order of Sikatuna, Rank of Datu, by H.E. President Gloria Macapagal-Arroyo for his outstanding efforts in promoting foreign relations for the Philippines. He is a recipient of the EDSA II Presidential Heroes Award in recognition of his work in fostering Philippine democracy and the Philippine Army Award from H.E. President Corazon Aquino for his accomplishments as Chairman of the Makati Foundation for Education. He was elevated to the Xavier Hall of Fame in New York City in 2006. Ambassador del Rosario joined First Pacific's Board in June 2003.

Tedy Djuhar
Non-executive Director

Age 58, born in Indonesia. Mr. Djuhar received a Bachelor of Economics degree from the University of New England in Australia. Mr. Djuhar is the Vice President Director of PT Indocement Tunggal Prakarsa Tbk, Director of Pacific Industries and Development Limited, and Director of a number of other Indonesian companies. Mr. Djuhar joined First Pacific's Board in 1981.

Ibrahim Risjad
Non-executive Director

Age 76, born in Indonesia. Mr. Risjad serves as a Commissioner of Indofood. He joined First Pacific's Board in 1981.

Benny S. Santoso
Non-executive Director

Age 52, born in Indonesia. Mr. Santoso graduated from Ngee Ann College in Singapore. He serves as a Commissioner of Indofood and PT Indosiar Karya Mandiri Tbk, a Director of PT Indocement Tunggal Prakarsa Tbk and a member of the Advisory Board of PLDT. Mr. Santoso joined First Pacific's Board in June 2003.

Advisors

Soedono Salim
Honorary Chairman and Advisor to the Board

Age 95, born in China. Mr. Salim served as First Pacific's Chairman from 1981 until February 1999, when he assumed his current titles. He serves as Chairman of the Salim Group.

Sudwikatmono
Advisor to the Board

Age 76, born in Indonesia. Mr. Sudwikatmono served as a Director of First Pacific from 1981 until February 1999, when he assumed his current title. He is a Vice President Commissioner of PT Indocement Tunggal Prakarsa Tbk and holds board positions with a number of other Indonesian companies.

Senior Executives

Richard L. Beacher
Executive Vice President
Group Financial Controller

Age 51, born in United Kingdom. Mr. Beacher received a BA (Hons) in Economics and Accounting from University of Newcastle Upon Tyne, U.K. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Beacher moved to Hong Kong in 1984 with PriceWaterhouse and most recently served in financial positions with Hagemeyer Cosa Lieberman and latterly with Siemens Building Technologies as Global Business Line Controller. He joined First Pacific in 2006.

Maisie M.S. Lam
Executive Vice President
Group Human Resources

Age 55, born in Hong Kong. Ms. Lam received a Diploma from the Hong Kong Polytechnic University/Hong Kong Management Association. She joined First Pacific in 1983.

Joseph H.P. Ng
Executive Vice President
Group Finance

Age 48, born in Hong Kong. Mr. Ng received an MBA and a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Ng joined First Pacific in 1988 from PriceWaterhouse's audit and business advisory department in Hong Kong. Prior to his appointment as Executive Vice President, Group Finance in May 2002, Mr. Ng was Group Treasurer of the First Pacific Group and served in several senior finance positions within the First Pacific Group.

John W. Ryan
Executive Vice President
Group Corporate Communications

Age 45, born in Ireland. Mr. Ryan received his Bachelor of Arts from the University of Connecticut and completed a Master of Philosophy course on Slavonic and East European Studies at St. Antony's College, Oxford University. He helped to build the HK Mercantile Exchange Limited over the course of a year and a half as Head of Corporate Communications. Prior to that, he served as Head of Corporate Communications, Asia Pacific for HSBC's wholesale bank in 2004-2007. He spent several years as a financial journalist, opening and leading Bloomberg's Moscow bureau in the early 1990s and later on joining Dow Jones as Bureau Chief over the period 1998-2004 in Moscow and Hong Kong. He joined First Pacific in 2010.

Richard P.C. Chan
Vice President
Group Finance

Age 40, born in Hong Kong. Mr. Chan received a BBA (Hons) degree from the Hong Kong Baptist University and an MBA from the Chinese University of Hong Kong. He is a Certified Public Accountant (Practising), a CFA charterholder and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has experience in auditing, accounting, finance and management spanning a diverse range of business activities. Mr. Chan joined First Pacific in 1996 from KPMG.

Sara S.K. Cheung
Vice President
Group Corporate Communications

Age 46, born in Hong Kong. Ms. Cheung received a BA in Business Economics from UCLA (University of California, Los Angeles) and an MBA from Southern Illinois University, Carbondale. She is responsible for investor relations, corporate communications and media relations. Ms. Cheung is a member of the National Investor Relations Institute and the Hong Kong Investor Relations Association. She joined First Pacific in 1997 from the Public Affairs department of Wharf Limited and Wheelock and Company Limited.

Nancy L.M. Li
Vice President
Company Secretary

Age 52, born in Hong Kong. Ms. Li received a BA from McMaster University in Canada and a MSc in Corporate Governance and Directorship from Hong Kong Baptist University. She is a Fellow of the Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries & Administrators of Great Britain. Ms. Li joined First Pacific in 1987 from the Hong Kong Polytechnic University's academic secretariat. Prior to that, she worked in the company secretarial department of Coopers & Lybrand. Ms. Li was appointed as First Pacific's Company Secretary in May 2003.

Peter T.H. Lin
Vice President
Group Tax and Treasury

Age 40, born in Hong Kong. Mr. Lin received an MSc in Management Sciences and BSc in Economics and Statistics from the University of Southampton and Coventry University respectively. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Tax Institute. Mr. Lin joined First Pacific in 1998 from KPMG where he was a Tax Manager specialising in Corporate Tax.

Interests of Directors in First Pacific and its Associated Companies

At 17 September 2010, the interests and short positions of the Directors and chief executive of First Pacific in the shares of First Pacific, underlying shares and debentures of First Pacific or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571) of Hong Kong (the "SFO")) which (a) were required to be notified to First Pacific and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), to be notified to First Pacific and SEHK were as follows:

Long Positions in Shares in First Pacific

Name	Number of ordinary shares	Approximate percentage of issued share capital (%)	Ordinary share options
Anthoni Salim	1,706,947,154(C)(1)	43.87	—
Manuel V. Pangilinan	21,405,305(P)	0.55	51,831,556
Edward A. Tortorici	35,223,557(P)	0.91	19,183,256
Robert C. Nicholson	12,914(P)	less than 0.01	26,337,388
Ambassador Albert F. del Rosario	720,000(P)	0.02	6,324,150
Benny S. Santoso	—	—	6,324,150
Napoleon L. Nazareno	—	—	3,330,000
Graham L. Pickles	—	—	3,330,719
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	—	—	4,743,113
Sir David W.C. Tang, *KBE*	—	—	3,330,719
Jun Tang	—	—	3,330,000

(C) = Corporate interest, (P) = Personal interest

Note:

(1) Anthoni Salim owns 100% of First Pacific Investments (BVI) Limited ("FPIL-BVI") and Mega Ring Investments Limited ("Mega Ring") which, in turn, are interested in 632,226,599 ordinary shares and 284,491,191 ordinary shares respectively in First Pacific. Anthoni Salim's indirect interests in FPIL-BVI and Mega Ring are held through Salerni International Limited ("Salerni") (a company which Anthoni Salim directly holds 100% of the issued share capital). Anthoni Salim also owns 56.8% of First Pacific Investments Limited ("FPIL-Liberia") which, in turn, is interested in 790,229,364 ordinary shares in First Pacific. Of this, 10.0% is held by Anthoni Salim directly, and 46.8% by Salerni. The remaining 43.2% interest in FPIL-Liberia is owned as to 30.0% by Sutanto Djuhar**, 10.0% by Tedy Djuhar and 3.2% by a company controlled by Ibrahim Risjad. Tedy Djuhar and Ibrahim Risjad are Non-executive Directors of First Pacific.

** Sutanto Djuhar retired from the Board of Directors of First Pacific with effect from 31 May 2010.

Long Positions in Shares in Associated Corporations

- Manuel V. Pangilinan owned 6,242,404 common shares(P) (0.03%)* and 15,000,000 share options in MPIC, 211,033 common shares(P) (0.11%)* in PLDT and 360 preferred shares(P) (less than 0.01%)* in PLDT as beneficial owner and a further 15,417 common shares (0.01%)* in PLDT as nominee, 1,392,500 common shares(P) (0.03%)* and 2,512,500 share options in Philex, as well as 25,000 common shares(P) (less than 0.01%)* in Meralco.

- Edward A. Tortorici owned 69,596 common shares(C) and 10,660,000 common shares(P) (collectively 0.05%)* in MPIC, 104,874 common shares(P) (0.06%)* in PLDT and 100 common shares(P) (less than 0.01%)* in Philex.

- Robert C. Nicholson owned 1,250 common shares(P) (less than 0.01%)* and 3,750,000 share options in Philex, as well as US$400,000 of bonds due 2017 issued by FPMH Finance Limited, a wholly-owned subsidiary of First Pacific.

- Tedy Djuhar owned 15,520,335 shares(C) (0.18%)* in Indofood.

- Ibrahim Risjad owned 6,406,180 shares(C) (0.07%)* in Indofood.

- Anthoni Salim owned 632,370 shares(P) (less than 0.01%)* in Indofood and a direct interest of 2,007,788 shares(C) (0.14%)* in Indofood Agri Resources Ltd ("IndoAgri") through his controlled corporations other than First Pacific and an indirect interest of 998,200,000 IndoAgri shares (69.38%)* through First Pacific group companies.

- Ambassador Albert F. del Rosario owned 140,005 common shares(P) (0.08%)* in PLDT, 1,560 preferred shares(P) (less than 0.01%)* in PLDT, 7,966,624 common shares(P) (0.04%)* and 5,000,000 share options in MPIC, 100 common shares(P) (less than 0.01%)* in Philex, 26,700 common shares(P) in Meralco (less than 0.01%)*, 32,231,970 preferred shares (54.9%)* in Prime Media Holdings, Inc. ("PMH") as nominee, 4 common shares(P) (less than 0.01%)* in PMH as beneficial owner, 4,922 common shares(P) (2.46%)* in Costa de Madera Corporation, 15,000 common shares(P) (5.0%)* in Metro Pacific Land Holdings Inc., and 80,000 common shares(P) (20.0%)* in Metro Strategic Infrastructure Holdings, Inc.

- Napoleon L. Nazareno owned 6,648 common shares(P) (less than 0.01%)* in MPIC, 13,927 common shares(P) (less than 0.01%)* in PLDT and 495 preferred shares(P) (less than 0.01%)* in PLDT, as well as 110,000 common shares(P) in Meralco (less than 0.01%)*.

(P) = Personal interest, (C) = Corporate interest

* Approximate percentage of the issued capital of the respective class of shares in the respective associated corporation as at 17 September 2010.

Interests of Substantial Shareholders in First Pacific

The register of interests in shares and short positions of substantial shareholders maintained under Section 336 of the SFO shows that at 17 September 2010, First Pacific had been notified that the following persons were interested in 5% or more of First Pacific's issued share capital:

(a) Salerni, which was incorporated in the British Virgin Islands, was interested in 1,706,947,154 ordinary shares of First Pacific (long position), representing approximately 43.87% of First Pacific's issued share capital, by way of its 46.80% interest in FPIL-Liberia, its 100% interest in FPIL-BVI and its 100% interest in Mega Ring. Anthoni Salim (the Chairman) beneficially owns the entire issued share capital of Salerni and, accordingly, is taken to be interested in the shares owned by Salerni.

(b) FPIL-Liberia, which was incorporated in the Republic of Liberia, beneficially owned 790,229,364 ordinary shares, representing approximately 20.31% of First Pacific's issued share capital. FPIL-Liberia is owned by Anthoni Salim (the Chairman), Tedy Djuhar (Non-executive Director), Ibrahim Risjad (Non-executive Director) and Sutanto Djuhar in the proportion specified in note (1) of the table on page 125. Anthoni Salim is taken to be interested in the shares owned by FPIL-Liberia.

(c) FPIL-BVI, which was incorporated in the British Virgin Islands, beneficially owned 632,226,599 ordinary shares, representing approximately 16.25% of First Pacific's issued share capital. Anthoni Salim (the Chairman) beneficially owns the entire issued share capital of FPIL-BVI and, accordingly, is taken to be interested in the shares owned by FPIL-BVI.

(d) Mega Ring, which was incorporated in the British Virgin Islands, beneficially owned 284,491,191 ordinary shares, representing approximately 7.31% of First Pacific's issued share capital, Anthoni Salim (the Chairman) beneficially owns the entire issued share capital of Mega Ring and, accordingly, is taken to be interested in the shares owned by Mega Ring.

(e) Marathon Asset Management Limited ("Marathon"), a U.K. incorporated company, notified First Pacific that it held 208,871,173 ordinary shares of First Pacific in August 2008, representing approximately 6.48% of First Pacific's issued share capital at that time. Since then, First Pacific has not received any other notification from Marathon of any change to such holding.

(f) Lazard Asset Management LLC ("Lazard"), a U.S. incorporated company, notified First Pacific that it held 232,267,400 ordinary shares of First Pacific as at 29 December 2009, representing approximately 6.02% of First Pacific's issued share capital at that time. Since then, First Pacific has not received any other notification from Lazard of any change to such holding.

Related Party Transactions

Significant related party transactions entered into by the Group for the year ended 31 December 2009 are disclosed as follows:

(A) In June 2009, MPIC entered into a sale and purchase agreement with AB Holdings Corporation ("ABHC"), Alfred Xerez-Burgos, Jr. ("AXB") (together the 49.0% shareholder of Landco Pacific Corporation ("Landco")) and Landco, pursuant to which MPIC sold 1.3 million common shares of Landco (representing 17.0% interest in Landco) for a consideration of ₱203 million (approximately US$4.2 million) to ABHC. This transaction also constituted a connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

(B) Asia Link B.V. ("ALBV"), a wholly-owned subsidiary company of First Pacific, has a technical assistance agreement with Smart, a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to ₱634 million (US$13.3 million) for the year ended 31 December 2009 (2008: ₱630 million or US$14.1 million). At 31 December 2009, the outstanding technical service fee payable amounted to ₱188 million (US$4.1 million) (2008: ₱8 million or US$0.2 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Anthoni Salim and members of his family either through direct and/or common share ownership and common management. Anthoni Salim is the Chairman and a substantial shareholder of First Pacific and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	**2008**
	(Consolidated) US$ millions	
Income Statement Items		
Sales of finished goods		
to associated companies and joint ventures	30.3	24.5
to affiliated companies	64.1	60.8
Purchases of raw materials		
from associated companies and joint ventures	44.2	41.5
from affiliated companies	15.6	14.0
Management and technical services fee income and royalty income		
from associated companies and joint ventures	1.0	0.9
from affiliated companies	7.8	7.5
Insurance expenses		
to affiliated companies	2.9	2.8
Rental expenses		
to affiliated companies	1.0	1.2
Transportation and pump services expenses		
to affiliated companies	0.4	0.4

Approximately 3% (2008: 2%) of Indofood's sales and 2% (2008: 2%) of its purchases were transacted with these related companies.

Nature of balances

	As at 31 December	
	2009	2008
	(Consolidated) US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade		
from associated companies and joint ventures	3.3	2.6
from affiliated companies	8.7	13.3
Accounts receivable — non-trade		
from associated companies and joint ventures	—	0.4
from affiliated companies	12.2	8.3
Accounts payable — trade		
to associated companies and joint ventures	6.2	3.6
to affiliated companies	2.6	2.3
Accounts payable — non-trade		
to associated companies and joint ventures	0.2	—
to affiliated companies	30.5	19.2

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(D) For the year ended 31 December 2009, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. ("DMCI") (a 44.6% shareholder of DMCI-MPIC Water Co. Inc., Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. ("Consunji"), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. ("DMCIPD"), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012. These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	**2008**[(i)]
	(Consolidated) US$ millions	
Income Statement Items		
Rental expenses	0.1	—
Capital Expenditure Items		
Construction services for water infrastructure obtained	47.5	22.0

(i) Information in respect of Maynilad relates to 17 July 2008 (date becoming a subsidiary of the Group) and after.

Nature of balances

	As at 31 December	
	2009	**2008**
	(Consolidated) US$ millions	
Statement of Financial Position Items		
Accounts payable — trade	8.0	3.0

(E) For the year ended 31 December 2009, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	**2008[i]**
	(Consolidated)	
	US$ millions	
Income Statement Items		
Operator's fee	28.0	4.2
Management income	1.1	—
Guarantee income	0.4	0.1
Interest income	0.3	—

(i) Information in respect of MNTC relates to 13 November 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

	As at 31 December	
	2009	**2008[1]**
	(Consolidated)	
	US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade	13.7	7.3
Accounts payable — trade	6.1	5.6

Significant related party transactions entered into by the Group for the six months ended 30 June 2010 are disclosed as follows:

(A) In April 2010, First Pacific purchased US$20.0 million from Philex at a forward rate of Pesos 45.03 per U.S. dollar for converting part of First Pacific's peso-denominated funds into U.S. dollar for working capital requirements.

(B) ALBV, a wholly-owned subsidiary company of First Pacific, has a technical assistance agreement with Smart, a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% (2009: 1%) of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to Pesos 313 million (US$6.8 million) for the six months ended 30 June 2010 (30 June 2009: Pesos 322 million or US$6.7 million). At 30 June 2010, the outstanding technical service fee payable amounted to Pesos 48 million (US$1.0 million) (31 December 2009: Pesos 188 million or US$4.1 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of First Pacific and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of transactions

For the six months ended 30 June	2010	2009
	US$ millions	
Income Statement Items		
Sales of finished goods		
— to associated companies and joint ventures	22.5	14.0
— to affiliated companies	40.6	25.1
Purchases of raw materials		
— from associated companies and joint ventures	20.6	19.4
— from affiliated companies	8.3	5.7
Management and technical services fee income and royalty income		
— from associated companies and joint ventures	—	0.5
— from affiliated companies	3.5	2.5
Insurance expenses		
— to affiliated companies	1.5	1.4
Rental expenses		
— to affiliated companies	0.5	0.5
Transportation and pump services expenses		
— to affiliated companies	0.2	0.2

Approximately 3% (2009: 2%) of Indofood's sales and 2% (2009: 2%) of its purchases were transacted with these related parties.

Nature of balances

	At 30 June 2010	At 31 December 2009
	US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade		
— from associated companies and joint ventures	7.6	3.3
— from affiliated companies	10.1	8.7
Accounts receivable — non-trade		
— from associated companies and joint ventures	0.4	—
— from affiliated companies	15.0	12.2
Accounts payable — trade		
— to associated companies and joint ventures	10.5	6.2
— to affiliated companies	3.7	2.6
Accounts payable — non-trade		
— to associated companies and joint ventures	0.5	0.2
— to affiliated companies	24.8	30.5

(D) For the period ended 30 June 2010, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI (a shareholder holding a 44.6% interest in DMWC, Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with Consunji, a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCIPD, a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of transactions

For the six months ended 30 June	2010	2009
	US$ millions	
Income Statement Items		
Rental expenses	0.1	0.1
Capital Expenditure Items		
Construction services for water infrastructure obtained	63.5	21.2

Nature of balances

	At 30 June 2010	At 31 December 2009
	US$ millions	
Statement of Financial Position Items		
Accounts payable — trade	29.3	8.0

(E) During the period ended 30 June 2010, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of transactions

For the six months ended 30 June	2010	2009
	US$ millions	
Income Statement Items		
Operator's fee	14.7	14.3
Management income	0.5	0.1
Guarantee income	0.1	0.2
Interest income	—	0.2

Nature of balances

	At 30 June 2010	At 31 December 2009
	US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade	1.2	3.1
Accounts payable — trade	5.7	6.1

SECURITY

The following is a summary of the security arrangements relating to the Bonds which will be more particularly set out in the Trust Deed and the Share Pledge relating to the Bonds to be entered into on or before the Closing Date.

Subject to the completion of the perfection requirements under the Share Pledge, the obligations of the Issuer under the Bonds and the Trust Deed are secured in favour of the Security Trustee by the following charges and security interests which constitute the Security:

1. the Share Pledge, governed by Philippine law dated on or before the Closing Date (as defined in the Conditions) granted by PTIC, over all rights, benefit and title of PTIC in the Initial PLDT Shares and any Additional PTIC Collateral; and

2. any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 3 of the Bonds.

Share Pledge

The Share Pledge provides a collateral security for the payment when due of all amounts (whether of principal, interest, fees or otherwise) which are or may at any time become due from or owing by the Issuer under the Bonds, the Trust Deed or the Agency Agreement.

PTIC, under the Share Pledge, will pledge to the Security Trustee (a) initially common shares in PLDT and (b) any Additional PLDT Collateral. The Collateral Value on the Closing Date will be at least 200% of the Reference Amount. The number of PLDT Shares to be secured initially will be calculated based on their Market Value (as defined in the Conditions) on the Closing Date. For illustrative purposes only, based on a Market Value of approximately US$58 for one PLDT Share on 20 September 2010, approximately 13.8 million PLDT Shares would be initially subject to the Share Pledge.

Pursuant to the Conditions of the Bonds and the terms of the Trust Deed, if at any time or from time to time the Collateral Value is less than 150% of the Reference Amount, First Pacific or the Issuer (as applicable) shall within thirteen (13) Business Days provide security over Additional PLDT Collateral and/or cash or Cash-equivalent Securities so that the aggregate Collateral Value is at least 215% of the Reference Amount, provided that any cash which is provided as Collateral shall be maintained by the Issuer in a separate interest-bearing account of the Issuer.

The Issuer may at any time substitute cash or Cash-equivalent Securities for all or part of the Collateral provided that the Collateral Value after such substitution is at least 200% of the Reference Amount.

To the extent that the Collateral Value at any time exceeds (i) 250% of the Reference Amount, the Issuer may, at any time, cause such reduction in the PLDT Shares and/or cash or Cash-equivalent Securities secured as Collateral and (ii) 215% of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral, in either case, (such reduction to be made in the amount of PLDT Shares and/or cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such PLDT Shares and/or cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer in writing (and a copy of such instruction should be provided to the Trustee)) as will result in the Collateral Value being at least equal to 215% of the Reference Amount.

Unless an Acceleration Notice (as defined in the Conditions) is served on the Issuer, the Issuer and PTIC will be entitled to exercise all of the rights attached to the Charged Property, including, without limitation, the right to convene and attend meetings of shareholders of PLDT, exercise the votes attaching to the Pledged Property and to give any consents, waivers and ratifications and in exercising its voting rights, PTIC may have regard to its own interest to the exclusion of the interests of the Bondholders or any of them in respect thereof except in any manner which is inconsistent with or which prejudices or is likely to prejudice the rights of the Security Trustee. On service of an Acceleration Notice, the Security Trustee has the sole and exclusive attorney to exercise all such rights, except voting rights. As a foreign national and as representative of Bondholders who are foreign nationals, the Security Trustee cannot be given voting power over the Pledged Property without violating the Anti-Dummy Law. The Anti-Dummy Law prohibits a foreign national from intervening in the management, operation, administration and control of an entity engaged in a partial nationalised business, like PLDT. Notwithstanding the foregoing, the Anti-Dummy Law does not affect the Security Trustee's right to foreclose the pledge, provided that the buyer under foreclosure should be a Philippine national.

Unless an Event of Default with respect to Condition 10 of the Bonds has occurred and is continuing, the Issuer and PTIC may receive all dividends and all other income and other cash distributions from the Charged Property. Upon an Event of Default with respect to Condition 10 of the Bonds which is continuing, pursuant to the Security Documents the Security Trustee may exercise all rights, powers and remedies vested in pledgors for the protection and enforcement of the Security Trustee's rights in respect of the Charged Property, including the powers to cause the sell the Charged Property, negotiate and conclude or terminate any agreement and collect any money due with respect to the Charged Property.

On service of an Acceleration Notice, the Security Trustee may take whatever action it, in its sole discretion and absolute discretion, deems necessary to protect and/or enforce its rights under the Security Documents, including, without limitation: (i) selling the Initial PLDT Shares and/or Additional PLDT Collateral through the PSE using two stock brokers; and/or (ii) as determined and approved by any court of competent jurisdiction (if required) selling the Initial PLDT Shares and/or Additional PLDT Collateral by private sale or by transferring or appropriating to itself in full or partial satisfaction of the obligations of the Issuer under the Bonds and the Trust Deed; provided that the Philippine legal requirement for the conduct of at least two public auctions for the sale of the Initial PLDT Shares and/or Additional PLDT Collateral has been complied with, prior to the foregoing sale or appropriation.

The Security

Description of PLDT Shares

Authorised common share capital	₱1,170 million (as at 30 June 2010).
Issued share capital	₱947 million (as at 30 June 2010).
Par Value	₱5.0 per share.
Listing	Listed on the PSE and trading under the symbol "TEL".

For further information on PLDT, please see "Summary Consolidated Financial Information for PLDT" and "Business of First Pacific — Telecommunications — PLDT".

Enforcement of Security and the Guarantee

Enforcement of the Security

The Security shall become enforceable upon the Bonds becoming immediately due and payable by reason of service of an Acceleration Notice and/or if the Issuer fails to make payment of amounts due and payable under the Bonds on the date on which they are subject to redemption under Condition 6 of the Bonds as applicable, whichever shall be the first to occur.

At any time after the Security becomes enforceable, the Security Trustee may, at its sole discretion without further notice, take such proceedings and/or other actions as it may think fit against or in relation to the Issuer to enforce the Issuer's or (as the case may be) PTIC's obligations under the Security Documents and take action to enforce the Security without any liability as to the consequences of such action, but it shall only be bound to take any such proceedings and/or actions if:

(i) so requested in writing by the holders of at least 25% in aggregate principal amount of the Bonds outstanding; or

(ii) so directed by an Extraordinary Resolution of the Bondholders;

subject to it having been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be reasonably incurred by it in connection therewith.

TAXATION

The following summary of certain British Virgin Islands, Philippines and Hong Kong tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

The Issuer is incorporated in the British Virgin Islands.

The Issuer and all interest, and other amounts (if any), paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands, and any capital gains realised by persons who are not persons resident in the British Virgin Islands with respect of any shares, debt obligations or other securities of the Issuer are exempt from all forms of taxation in the British Virgin Islands. As at 1 January 2005, the Payroll Taxes Act, 2004 came into force. It will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands. The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations, or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations, or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members. However, Council Directive 2003/48/EC adopted by the Council of the European Union on 3 June 2003, known as the "EU Savings Tax Directive" (the "Directive") on the taxation of savings income in the form of interest payments took effect from 1 July 2005. Although aimed originally only at EU Member States, the Directive was extended to include also certain overseas territories (including the British Virgin Islands, where the Issuer is incorporated) and a number of non-EU countries (together the "Applicable States").

Bondholders who are individuals resident in a Member State of the European Community should be aware that any income realised upon the sale, refund or redemption of their Bonds, together with any income in the form of dividends or other distributions, may become subject to the reporting regime (or the withholding tax regime) imposed by the Directive on taxation of savings income in the form of interest payments, if payment of such income is made by a paying agent established either in another Member State or in certain other jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime in respect of such payments.

However, because these rules are complex and the precise extent of their application has not yet been confirmed by all Member States or other relevant jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime, application of the regime cannot be excluded in all cases and Bondholders who are individuals should consult their own tax advisers in relation to the purchase of the Bonds.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest in respect of the Bonds.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue or profits arising on the sale, disposal or redemption of the Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) of a Bond.

EU Directive on the Taxation of Savings Income

The European Union has adopted a directive regarding the taxation of savings income. The directive requires member states to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another member state, except that Austria and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Philippines

The statements made regarding taxation in the Philippines are based on the laws in force to the date hereof and are subject to any changes in law occurring after such date. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as banks and dealers in securities) may be subject to special rates. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the tax consequences of their ownership of the Bonds.

Income Tax

Resident citizens and domestic corporations are subject to tax on Philippine-source and non-Philippine-source income. Non-resident citizens, aliens and foreign corporations are subject to tax only on Philippine source income.

Interest on the Bonds

Interest on the Bonds is not considered to be Philippine source income. Accordingly, non-resident citizens, aliens and foreign corporations will not be subject to income tax on interest received by them on the Bonds. On the other hand, interest on the Bonds received by resident citizens and domestic corporations generally form part of their gross income for purposes of computing their taxable income (i.e., gross income less allowable deductions) subject to tax at graduated rates of up to 32% in the case of resident citizens, or normal corporate income tax at 30% in the case of domestic corporations. Interest on the Bonds received by domestic corporations also generally from part of their gross income (i.e., gross sales or gross receipts less cost of goods sold, cost of goods manufactured and sold or cost of services) for purposes of computing the 2% minimum corporate income tax ("MCIT") which is imposed on the corporation beginning on its fourth taxable year. The domestic corporation pays the MCIT instead of the normal corporate income tax when the MCIT is greater than the normal corporate income tax. The excess of the MCIT over the normal corporate income tax is carried forward and credited against normal corporate income tax for the three immediately succeeding taxable years.

Sale or other disposition of the Bonds

Under the National Internal Revenue Code of the Philippines, gains realised from the sale or exchange or retirement of Bonds, debentures or other certificates of indebtedness with a maturity of more than five years are exempt from income tax.

Since the Bonds have a maturity of more than five years, gains from the sale or other disposition of the Bonds will be exempt from income tax.

Redemption (Tax, Optional or Final)

Please see discussions under "— Interest on the Bonds" and "— Sale or other disposition of the Bonds" for the tax or exemption applicable to accrued interest or any gain from the redemption of the Bonds.

Amounts received by the Bondholder upon the retirement of the Bonds are considered as amounts received in exchange for such Bonds.

Estate and gift taxes

The transfer of the Bonds upon the death of an individual Bondholder to his or her heirs by way of succession, where such Bondholder was a citizen or a resident alien, will be subject to estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.

Bondholders that are citizens or domestic corporations who transfer the Bonds by way of gift or donation will be liable for donor's tax at either (a) 30%, if the recipient is a stranger or if the donor is a corporation, or (b) at progressive rates ranging from 2% to 15% if (i) the net gifts made during the calendar year exceed ₱100,000, and (ii) the recipient is not a stranger. For this purpose, a "stranger" is a person who is not a brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship.

In the case of non-resident aliens and foreign corporations, the transfer of the Bonds by way of succession or by way of gift or donation will be subject to estate tax or donor's tax, as the case may be, if the Bonds are considered to have Philippine situs. The Bonds should not be deemed to have Philippine situs because the business of the Issuer is not located in the Philippines. Even if the Bonds are considered to have Philippine situs, the transfer of the Bonds by way of succession or by way of gift or donation will not be subject to estate tax or donor's tax, as the case may be, if (i) the decedent at the time of his death or the donor at the time of the donation was as 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 (ii) the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

As used herein, the following terms shall have the following meanings:-

An "alien" refers to an individual who is not a citizen of the Philippines.

A "citizen" refers to an individual who is a citizen of the Philippines.

A "domestic corporation" refers to a corporation created or organised in the Philippines or under its laws.

A "foreign corporation" refers to a corporation that is not a domestic corporation.

A "non-resident alien" refers to an alien whose residence is not within the Philippines.

A "non-resident citizen" refers to a citizen who (i) establishes to the satisfaction of the Commissioner of Internal Revenue of the Philippines the fact of his physical presence abroad with a definite intention to reside therein, (ii) leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis, or (iii) works and derives income from abroad and whose employment requires him to be physically present abroad most of the time during the taxable year.

A "non-resident foreign corporation" refers to a foreign corporation not engaged in trade or business in the Philippines.

A "resident alien" refers to an alien whose residence is within the Philippines.

A "resident citizen" refers to a citizen whose residence is within the Philippines.

A "resident foreign corporation" refers to a foreign corporation engaged in trade or business within the Philippines.

For purposes of this summary, the terms "resident citizen", "non-resident citizen", "resident alien", "non-resident alien", "resident foreign corporation", and "non-resident foreign corporation" are used in the same manner as in the National Internal Revenue Code of the Philippines.

SUBSCRIPTION AND SALE

The Issuer and First Pacific has entered into a subscription agreement with the Joint Lead Managers dated 20 September 2010 (the "Subscription Agreement") pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers severally but not jointly agreed to subscribe for, or procure subscribers to subscribe for, the aggregate principal amount of the Bonds, and First Pacific agreed, unconditionally and irrevocably to guarantee the Bonds.

The Subscription Agreement provides that each of the Issuer and First Pacific will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Joint Lead Managers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Issuer, First Pacific and/or their respective subsidiaries or affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, First Pacific and/or their respective subsidiaries or affiliates in the ordinary course of their business.

The Joint Lead Managers or certain of their respective affiliates may purchase the Bonds and be allocated Bonds for asset management and/or proprietary purposes and not with a view to distribution.

The Joint Lead Managers or certain of their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or First Pacific or their respective subsidiaries or affiliates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

1 **General**: No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or First Pacific that would permit a public offering of the Bonds, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers has agreed to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes the Offering Circular or any other such other material. Each of the Joint Lead Managers will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

2 **United States**: The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Joint Lead Managers has represented that it has not offered or sold, and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds. Terms used in this paragraph have the meanings given to them by Regulation S.

3 **United Kingdom**: Each of the Joint Lead Managers has represented, warranted and agreed that:

3.1 it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

3.2 it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

4 **Singapore**: The Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289) of Singapore (the "Securities and Futures Act"). Each of the Joint Lead Managers has represented, warranted and agreed that the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Note:

Where Bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor) (as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the Securities and Futures Act.

5 **Hong Kong**: Each of the Joint Lead Managers has represented and agreed that:

5.1 it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

5.2 it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

6 **The Philippines**: The Bonds being offered or sold have not been and will not be registered with the Philippine Securities and Exchange Commission under the Securities Regulation Code of the Philippines (the "SRC"). Any future offer or sale of the Bonds within the Philippines is subject to the registration requirements under the SRC unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or qualify as exempt transactions under the SRC.

Any offer or sale of the Bonds within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or pursuant to an exempt transaction under the SRC. The offer or sale of the Bonds in the Philippines to (a) "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC, or (b) persons who are "qualified buyers" pursuant to Section 10.1(1) of the SRC, or (c) not more than nineteen (19) persons who are not "qualified buyers" during any twelve-month period pursuant to Section 10.1(k) of the SRC is exempt from registration. The Issuer has not obtained confirmation from the Philippine Securities and Exchange Commission that the offer and sale of the Bonds within the Philippines qualifies as an exempt transaction. If necessary, the Issuer will file a notice of exemption from registration with the Philippine Securities and Exchange Commission pursuant to SRC Rule 10.1. Each of the Joint Lead Managers and each of the Domestic Managers has represented, warranted and agreed that it has and will not sell or offer for sale or distribution any Bonds in the Philippines except to "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC or to "qualified buyers" pursuant to Section 10.1(1) of the SRC. Prospective investors should take note of the transfer restrictions set out in Rule 9.2(2) B of the amended implementing rules of the SRC.

7 **The British Virgin Islands**: The Bonds may not be offered or sold to the public. Accordingly, each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell any Bonds to the public or any member of the public in the British Virgin Islands, nor has it or will it offer or sell Bonds, directly or indirectly, in the British Virgin Islands or to, or for the account or benefit of the public or any member of the public in the British Virgin Islands.

8 **Bermuda**: Each of the Joint Lead Managers has represented and agreed that it has not offered or sold and will not offer or sell any Bonds to any person, firm or company regarded as a resident of Bermuda for Exchange Control purposes and will procure that any purchaser from it of any Bonds will comply with such prescription.

GENERAL INFORMATION

1. **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 054453604. The International Securities Identification Number for the Bonds is XS0544536047.

2. **Listing of Bonds**: The Issuer has made an application for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such an announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 17 September 2010. First Pacific has obtained all necessary consents, approvals and authorisations in connection with the provision of the Guarantee. The provision of the Guarantee was authorised by resolutions of the Board of Directors of First Pacific on 17 September 2010. PTIC will obtain all necessary consents, approvals and authorisations in connection with the provision of the Share Pledge. The provision of the Share Pledge is expected to be authorised by resolutions of the Board of Directors of PTIC on 20 September 2010.

4. **No Material Adverse Change**: There has been no material adverse change in the financial or trading position or prospect of the Issuer or First Pacific since 30 June 2010.

5. **Litigation**: Neither the Issuer nor First Pacific is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Issuer or First Pacific aware that any such proceedings are pending or threatened.

6. **Available Documents**: The audited consolidated financial statements of First Pacific for the year ended 31 December 2009, the unaudited condensed consolidated financial statements of First Pacific for the six months ended 30 June 2010, as well as the Trust Deed and Agency Agreement will be available for inspection, at the specified office of the Issuer at 24/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

7. **Auditors**: The audited consolidated financial statements of First Pacific for the year ended 31 December 2009, which are included in this Offering Circular, have been audited by Ernst & Young, Hong Kong, Certified Public Accountants, as stated in their report appearing herein. The unaudited condensed consolidated financial statements of First Pacific for the six months ended 30 June 2010, which are included in this Offering Circular, have been reviewed by Ernst & Young, Hong Kong, Certified Public Accountants, as stated in their report appearing herein.

INDEX TO THE FINANCIAL STATEMENTS

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF FIRST PACIFIC FOR THE SIX MONTHS ENDED 30 JUNE 2010

The following is a reproduction of the unaudited condensed interim consolidated financial statements of First Pacific for the six months ended 30 June 2010 together with the independent auditors' report appearing in the 2010 interim report of First Pacific (the "Interim Report").

References to page numbers in the following financial statements refer to the original page numbers in the Interim Report and cross-references to page numbers are to such original page numbering.

Certain cross-references in the reproduced unaudited condensed interim consolidated financial statements of First Pacific are to other sections of the Interim Report not contained in this Offering Circular. For the avoidance of doubt, such cross-referenced information is not incorporated by reference in this Offering Circular.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FIRST PACIFIC FOR THE YEAR ENDED 31 DECEMBER 2009

The following is a reproduction of the audited consolidated financial statements of First Pacific for the year ended 31 December 2009 together with the independent auditors' report appearing in the 2009 annual report of First Pacific (the "Annual Report").

References to page numbers in the following financial statements refer to the original page numbers in the Annual Report and cross-references to page numbers are to such original page numbering.

Certain cross-references in the reproduced audited consolidated financial statements of First Pacific are to other sections of the Annual Report not contained in this Offering Circular. For the avoidance of doubt, such cross-referenced information is not incorporated by reference in this Offering Circular.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PLDT FOR THE SIX MONTHS ENDED 30 JUNE 2010

The following is a reproduction of the unaudited consolidated financial statements of PLDT for the six months ended 30 June 2010 together with the independent auditors' report.

References to page numbers in the following financial statements refer to the original page numbers of the unaudited consolidated financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF PLDT FOR THE YEAR ENDED 31 DECEMBER 2009

The following is a reproduction of the audited consolidated financial statements of PLDT for the year ended 31 December 2009 together with the independent auditors' report appearing in the 2009 annual report of PLDT.

References to page numbers in the following financial statements refer to the original page numbers in the 2009 annual report of PLDT and cross-references to page numbers are to such original page numbering of the audited consolidated financial statements.

Review Report of the Independent Auditors

ERNST & YOUNG

To the Board of Directors of First Pacific Company Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 37 to 58, which comprises the condensed consolidated statement of financial position of First Pacific Company Limited as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" (HKAS 34) issued by the Hong Kong Institute of Certified Public Accountants.

The Directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

ERNST & YOUNG
Certified Public Accountants

18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

30 August 2010

Condensed Interim Financial Statements

Condensed Consolidated Income Statement

For the six months ended 30 June US$ millions	Notes	(Unaudited) 2010	 2009 (Restated)[i]
Turnover	2	**2,161.5**	1,809.1
Cost of sales		**(1,384.8)**	(1,279.8)
Gross Profit		**776.7**	529.3
Gain on disposals and dilutions		**1.5**	–
Distribution costs		**(174.6)**	(137.8)
Administrative expenses		**(175.7)**	(138.5)
Other operating (expenses)/income, net		**(7.5)**	96.9
Net borrowing costs	3	**(118.2)**	(110.7)
Share of profits less losses of associated companies and joint ventures		**141.2**	114.1
Profit Before Taxation	4	**443.4**	353.3
Taxation	5	**(86.8)**	(52.7)
Profit for the Period from Continuing Operations		**356.6**	300.6
Profit for the period from a discontinued operation		**–**	2.7
Profit for the Period		**356.6**	303.3
Attributable to:			
Owners of the parent	6	**188.5**	164.3
Non-controlling interests		**168.1**	139.0
		356.6	303.3
Ordinary Share Dividend – Interim	7		
U.S. 0.77 cent (2009: U.S. 0.51 cent) per share		**29.9**	16.5
Earnings Per Share Attributable to Owners of the Parent (U.S. cents)	8		
Basic			
– For profit from continuing operations		**4.88**	4.76
– For profit from a discontinued operation		**–**	0.09
– For profit for the period		**4.88**	4.85
Diluted			
– For profit from continuing operations		**4.75**	4.70
– For profit from a discontinued operation		**–**	0.09
– For profit for the period		**4.75**	4.79

(i) Refer to Note 20

The accompanying notes form an integral part of these Condensed Interim Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

	(Unaudited)	
For the six months ended 30 June US$ millions	**2010**	2009
Profit for the Period	**356.6**	303.3
Other Comprehensive Income/(Loss)		
Exchange differences on translating foreign operations	**58.3**	89.6
Unrealized gains on available-for-sale assets	**3.1**	28.3
Unrealized losses on cash flow hedges	**(3.8)**	(2.1)
Realized losses on cash flow hedges	**0.5**	0.7
Income tax related to cash flow hedges	**0.1**	0.1
Share of revaluation increment of an associated company's assets	**–**	5.0
Other comprehensive income for the period, net of tax	**58.2**	121.6
Total Comprehensive Income for the Period	**414.8**	424.9
Attributable to:		
Owners of the parent	**197.1**	214.0
Non-controlling interests	**217.7**	210.9
	414.8	424.9

Condensed Consolidated Statement of Financial Position

US$ millions	Notes	(Unaudited) At 30 June 2010	(Audited) At 31 December 2009
Non-current Assets			
Property, plant and equipment	9	**1,151.3**	1,059.0
Plantations		**1,086.4**	1,009.2
Associated companies and joint ventures	10	**2,305.3**	2,068.0
Goodwill		**793.8**	775.2
Other intangible assets	11	**1,811.2**	1,728.4
Accounts receivable, other receivables and prepayments		**8.2**	6.6
Prepaid land premiums		**190.2**	183.0
Available-for-sale assets		**2.1**	2.1
Deferred tax assets		**72.9**	58.3
Other non-current assets		**240.4**	305.9
		7,661.8	7,195.7
Current Assets			
Cash and cash equivalents		**889.8**	936.6
Restricted cash and pledged deposits	12	**29.3**	29.2
Available-for-sale assets		**47.0**	40.4
Accounts receivable, other receivables and prepayments	13	**471.1**	639.1
Inventories		**558.5**	549.2
Assets held for sale		**7.1**	7.1
		2,002.8	2,201.6
Current Liabilities			
Accounts payable, other payables and accruals	14	**718.3**	628.2
Short-term borrowings		**865.9**	829.7
Provision for taxation		**65.0**	68.9
Current portion of deferred liabilities and provisions	15	**69.0**	73.5
		1,718.2	1,600.3
Net Current Assets		**284.6**	601.3
Total Assets Less Current Liabilities		**7,946.4**	7,797.0
Equity			
Issued share capital		**38.8**	38.6
Retained earnings		**704.2**	556.4
Other components of equity		**1,335.9**	1,321.2
Equity attributable to owners of the parent		**2,078.9**	1,916.2
Non-controlling interests		**2,278.8**	2,122.9
Total Equity		**4,357.7**	4,039.1
Non-current Liabilities			
Long-term borrowings		**2,684.5**	2,855.6
Deferred liabilities and provisions	15	**500.0**	507.0
Deferred tax liabilities		**404.2**	395.3
		3,588.7	3,757.9
		7,946.4	7,797.0

The accompanying notes form an integral part of these Condensed Interim Financial Statements.

On behalf of the Board of Directors

MANUEL V. PANGILINAN
Managing Director and Chief Executive Officer
30 August 2010

Condensed Consolidated Statement of Changes in Equity

US$ millions	Note	Issued share capital	Share premium	Share options issued	Exchange reserve	Unrealized gains on available-for-sale assets	Unrealized gains/ (losses) on cash flow hedges	Income tax related to cash flow hedges	Capital and other reserves	Retained earnings	Total	Non-controlling interests	(Unaudited) Total equity
		Equity attributable to owners of the parent											
Balance at 1 January 2009		32.1	974.1	34.7	(116.0)	11.7	2.7	(0.8)	(4.4)	196.0	1,130.1	1,245.1	2,375.2
Total comprehensive income for the period		–	–	–	16.5	29.4	(1.9)	0.7	5.0	164.3	214.0	210.9	424.9
Issue of shares upon the exercise of share options		0.1	1.2	(0.4)	–	–	–	–	–	–	0.9	–	0.9
Equity-settled share option arrangements		–	–	6.8	–	–	–	–	–	–	6.8	–	6.8
2008 final dividend paid		–	–	–	–	–	–	–	–	(24.7)	(24.7)	–	(24.7)
Dividends declared and paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(32.9)	(32.9)
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(6.6)	(6.6)
Disposal of a disposal group classified as held for sale		–	–	–	–	–	–	–	(0.1)	–	(0.1)	(6.4)	(6.5)
Balance at 30 June 2009		32.2	975.3	41.1	(99.5)	41.1	0.8	(0.1)	0.5	335.6	1,327.0	1,410.1	2,737.1
Balance at 1 January 2010		38.6	1,245.9	43.1	1.2	22.4	(1.2)	0.3	9.5	556.4	1,916.2	2,122.9	**4,039.1**
Total comprehensive income for the period		–	–	–	11.3	0.3	(3.1)	0.1	–	188.5	197.1	217.7	**414.8**
Issue of shares upon the exercise of share options		0.2	7.4	(2.3)	–	–	–	–	–	–	5.3	–	**5.3**
Repurchase and cancellation of shares		–	–	–	–	–	–	–	–	(1.1)	(1.1)	–	**(1.1)**
Equity-settled share option arrangements		–	–	3.9	–	–	–	–	–	–	3.9	–	**3.9**
2009 final dividend paid		–	–	–	–	–	–	–	–	(39.6)	(39.6)	–	**(39.6)**
Dividends declared and paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(66.3)	**(66.3)**
Acquisition of subsidiary companies	17(B)	–	–	–	–	–	–	–	–	–	–	4.5	**4.5**
Dilution of interests in subsidiary companies and acquisition of non-controlling interests by associated companies		–	–	–	–	–	–	–	(2.9)	–	(2.9)	–	**(2.9)**
Balance at 30 June 2010		**38.8**	**1,253.3**	**44.7**	**12.5**	**22.7**	**(4.3)**	**0.4**	**6.6**	**704.2**	**2,078.9**	**2,278.8**	**4,357.7**

The accompanying notes form an integral part of these Condensed Interim Financial Statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June US$ millions	Notes	(Unaudited) 2010	2009
Profit Before Taxation			
From continuing operations		**443.4**	353.3
From a discontinued operation		**–**	1.7
Adjustments for:			
Interest expenses	3	**132.7**	123.3
Decrease/(increase) in other non-current assets		**74.5**	(30.5)
Depreciation	4	**52.2**	40.8
Amortization of other intangible assets	4	**33.9**	44.1
Equity-settled share option expense		**3.6**	5.7
Recognition of prepaid land premiums	4	**3.6**	2.8
Loss on dilution of interest in an associated company	4	**0.3**	–
Share of profits less losses of associated companies and joint ventures		**(141.2)**	(114.1)
Interest income	3	**(14.5)**	(12.6)
Foreign exchange and derivative gains, net	4	**(5.6)**	(32.0)
Increase in accounts receivables, other receivables and prepayments (Non-current)		**(2.8)**	(1.1)
Gain on changes in fair value of plantations	4	**(2.2)**	(53.8)
Gain on disposal of a joint venture	4	**(1.8)**	–
Gain on sale of property, plant and equipment	4	**(1.3)**	(0.3)
Others		**(4.7)**	7.2
		570.1	334.5
Increase in working capital[(i)]		**(15.1)**	(141.1)
Net cash generated from operations		**555.0**	193.4
Interest received		**14.9**	9.0
Interest paid		**(130.6)**	(110.1)
Tax paid		**(108.5)**	(100.9)
Net Cash Flows From/(Used in) Operating Activities		**330.8**	(8.6)
Decrease in loan receivables		**244.6**	–
Dividend received from associated companies		**162.3**	127.3
Proceeds from disposal of a joint venture		**5.3**	–
Proceeds from sale of property, plant and equipment		**1.5**	1.4
Dividends from available-for-sale assets		**0.1**	–
Investments in other intangible assets		**(107.4)**	(43.7)
Purchase of property, plant and equipment		**(96.0)**	(111.6)
Investments in plantations		**(39.3)**	(32.6)
Increased investments in associated companies	17(A)	**(13.3)**	–
Acquisition of subsidiary companies	17(B)	**(5.1)**	–
Acquisition of available-for-sale assets		**(0.1)**	(59.3)
Investments in associated companies		**–**	(15.5)
Increased investments in subsidiary companies		**–**	(8.1)
Advances to associated companies, net		**–**	(0.1)
Net Cash Flows From/(Used in) Investing Activities		**152.6**	(142.2)
Decrease/(increase) in time deposits with original maturity of more than three months		**60.1**	(61.3)
Proceeds from issue of shares upon the exercise of share options		**5.3**	0.9
Net borrowings (repaid)/raised		**(365.0)**	187.4
Investments in preferred shares of a joint venture		**(144.1)**	–
Dividends paid to shareholders		**(39.6)**	(24.7)
Dividends paid to non-controlling shareholders by subsidiary companies		**(4.2)**	(14.2)
Repurchase of shares		**(1.1)**	–
Increase in restricted cash		**(0.1)**	(18.8)
Share issue expenses of a subsidiary company		**–**	(0.3)
Net Cash Flows (Used in)/From Financing Activities		**(488.7)**	69.0
Net Decrease in Cash and Cash Equivalents		**(5.3)**	(81.8)
Cash and cash equivalents at 1 January		**883.9**	625.9
Exchange translation		**9.5**	11.1
Cash and Cash Equivalents at 30 June		**888.1**	555.2
Representing			
Cash and cash equivalents		**889.8**	616.5
Less time deposits with original maturity of more than three months		**(1.7)**	(61.3)
Cash and Cash Equivalents at 30 June		**888.1**	555.2

(i) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies.

The accompanying notes form an integral part of these Condensed Interim Financial Statements.

Notes to the Condensed Interim Financial Statements

1. Basis of Preparation and Impact of New and Revised HKFRSs

(A) Basis of Preparation

The Condensed Interim Financial Statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (SEHK). The Condensed Interim Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Group's 2009 audited financial statements, except for the new accounting policies adopted in 2010 in relation to the accounting for transactions between the owners and the non-controlling interests (previously referred as "minority interests") of subsidiary companies and business combinations following its adoption of HKAS 27 (Revised)"Consolidated and Separate Financial Statements" and Hong Kong Financial Reporting Standard (HKFRS) 3 (Revised) "Business Combinations", respectively.

(B) Impact of New and Revised HKFRSs

Certain changes to Hong Kong GAAP have been implemented during 2010 as a consequence of the following new and revised HKFRSs (which include all HKFRSs, HKASs, HK(IFRIC)-Ints and Hong Kong Interpretations (HK Interpretations) issued by the HKICPA:

HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"(i)
HKAS 39 Amendment	"Eligible Hedged Items"(i)
HKFRS1 (Revised)	"First-time Adoption of Hong Kong Financial Reporting Standards"(i)
HKFRS1 Amendments	"Additional Exemptions for First-time Adopters"(ii)
HKFRS 2 Amendments	"Group Cash-settled Share-based Payment Transactions"(ii)
HKFRS 3 (Revised)	"Business Combinations"(i)
HKFRS 5 Amendments	"Non-current Assets Held for Sale and Discontinued Operations"(i)(ii)
HK(IFRIC)-Int 17	"Distributions of Non-cash Assets to Owners"(i)
HK Interpretation 4 (Revised)	"Leases – Determination of the Length of Lease Term in respect of Hong Kong Leases"(ii)
Improvements to HKFRSs	"Improvements to HKFRSs" and "Improvements to HKFRSs 2009"(iii)

(i) Effective for annual periods commencing on or after 1 July 2009
(ii) Effective for annual periods commencing on or after 1 January 2010
(iii) Generally effective for annual periods commencing on or after 1 January 2010, unless otherwise stated in the specific HKFRSs

The adoption of the above pronouncements (except for HKAS 27 (Revised) and HKFRS 3 (Revised)) has had no effect on both the profit attributable to owners of the parent for the six-month periods ended 30 June 2010 and 30 June 2009 and equity attributable to owners of the parent at 30 June 2010 and 31 December 2009, but only results in certain changes in the financial statement presentation and disclosures. The impacts of adopting HKAS 27 (Revised) and HKFRS 3 (Revised) are summarized as follows.

The Group's adoption of HKAS 27 (Revised) and HKFRS 3 (Revised) results in changes in the Group's accounting policies which have been applied prospectively starting 1 January 2010. The adoption affects the Group's accounting treatments for (i) transactions between the owners and the non-controlling interests of subsidiary companies and (ii) business combinations.

HKAS 27 (Revised) changes (a) the term "minority interest" to "non-controlling interest" and (b) the accounting requirements of the Group in respect of (i) changes in its ownership interests in subsidiary companies, for cases which result in either a loss of control or not, and (ii) losses incurred by its subsidiary companies. For the changes in the Group's ownership interest in a subsidiary company that do not result in a loss of control, the Group is required by the revised standard to account for such changes as equity transactions. Accordingly, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. For the changes in the Group's ownership interest in a subsidiary company that result in a loss of control, the Group is required by the revised standard to (a) remeasure the retained investment at its fair value at the date when control was lost and (b) recognize the difference between (i) the fair value of consideration received and the retained investment and (ii) the carrying amounts of assets (including the attributable carrying amount of goodwill), liabilities, non-controlling interests (including any components of other comprehensive income attributable to them) as an additional gain or loss on disposal. For the losses incurred by loss-making subsidiary companies, the Group is required by the revised standard to account for the losses attributable to its non-controlling interests even if that results in a deficit balance for the non-controlling interests in the Group's accounts.

HKFRS 3 (Revised) introduces certain changes in the accounting requirements for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results of the Group after the date of its adoption. These changes include, but are not limited to, the new requirements of (a) for partial acquisitions, allowing non-controlling interests to be measured either as their proportionate interests in the net identifiable assets or at their fair value; (b) for step acquisitions, (i) measuring goodwill as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition plus the consideration transferred and the net assets acquired and (ii) recognizing gains or losses from remeasuring to the fair value the interest in the acquiree held by the Group immediately before the business combination; (c) recognizing acquisition-related costs as expenses, rather than including them in goodwill; and (d) recognizing the fair value of contingent considerations at the acquisition date and reflecting the subsequent changes of such contingent considerations either in profit or loss or in other comprehensive income in accordance with the requirements of HKAS 39 "Financial Instruments: Recognition and Measurement".

The above changes (a) result in a decrease in the balances of (i) Associated companies and joint ventures and (ii) Capital and other reserves (included within Other components of equity) by US$2.9 million (representing the Group's share of the excess of consideration paid over the net asset values of non-controlling interests acquired by its associated companies) in the Group's consolidated statement of financial position at 30 June 2010 and (b) have no material effect on the Group's consolidated income statement and earnings per share attributable to owners of the parent for the six months ended 30 June 2010.

2. Turnover and Segmental Information

For the six months ended 30 June US$ millions	**2010**	2009
Turnover		
Sale of goods	**1,920.2**	1,624.3
Rendering of services	**241.3**	184.8
Total	**2,161.5**	1,809.1

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available to him.

The Board of Directors considers the business from both product or service and geographical perspectives. From the product or service perspective, the Group business interests are divided into four main segments, which are telecommunications, infrastructure, consumer food products and natural resources. Geographically, the Board of Directors considers that the businesses of the Group are operating in the Philippines and Indonesia. Details of the Group's principal investments are provided on page 68.

The Board of Directors assesses the performance of the operating segments based on a measure of recurring profit. This basis measures the profit attributable to owners of the parent excluding the effects of foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items. Non-recurring items represent certain items, through occurrence or size, which are not considered as usual operating items.

The revenue, results and other information for the six months ended 30 June 2010 and 2009, and total assets and total liabilities at 30 June 2010 and 31 December 2009 regarding the Group's reportable businesses are as follows.

By Principal Business Activity – 2010

For the six months ended/at 30 June US$ millions	The Philippines Telecom-munications	 Infrastructure	 Natural Resources	Indonesia Consumer Food Products	 Head Office	 **2010 Total**
Revenue						
Turnover	–	193.4	–	1,968.1	–	**2,161.5**
Results						
Recurring profit	113.3	22.7	3.6	79.7	(27.4)	**191.9**
Assets and Liabilities						
Associated companies and joint ventures	1,020.5	712.2	565.5	2.8	4.3	**2,305.3**
Other assets	–	1,990.4	–	5,265.2	103.7	**7,359.3**
Total assets	1,020.5	2,702.6	565.5	5,268.0	108.0	**9,664.6**
Borrowings	–	704.7	–	1,849.7	996.0	**3,550.4**
Other liabilities	–	516.8	–	1,154.7	85.0	**1,756.5**
Total liabilities	–	1,221.5	–	3,004.4	1,081.0	**5,306.9**
Other Information						
Depreciation and amortization	–	(25.6)	–	(64.0)	(3.7)	**(93.3)**
Interest income	–	7.1	–	7.1	0.3	**14.5**
Interest expenses	–	(46.4)	–	(68.1)	(18.2)	**(132.7)**
Share of profits less losses of associated companies and joint ventures	126.8	10.9	4.4	(1.1)	0.2	**141.2**
Taxation	–	5.1	–	(83.6)	(8.3)	**(86.8)**
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	128.8	–	136.0	–	**264.8**

By Principal Business Activity – 2009

For the six months ended 30 June/ at 31 December US$ millions	The Philippines Telecom-munications	The Philippines Infrastructure	The Philippines Natural Resources	Indonesia Consumer Food Products	Head Office	2009 Total
Revenue						
Turnover	–	156.2	–	1,652.9	–	1,809.1
Results						
Recurring profit	102.9	14.6	2.1	31.8	(23.9)	127.5
Assets and Liabilities						
Associated companies and joint ventures	1,050.8	568.8	441.2	3.7	3.5	2,068.0
Other assets	–	2,214.1	–	4,882.1	233.1	7,329.3
Total assets	1,050.8	2,782.9	441.2	4,885.8	236.6	9,397.3
Borrowings	–	926.1	–	1,837.7	921.5	3,685.3
Other liabilities	–	571.4	–	1,008.7	92.8	1,672.9
Total liabilities	–	1,497.5	–	2,846.4	1,014.3	5,358.2
Other Information						
Depreciation and amortization	–	(38.4)	–	(50.2)	(4.8)	(93.4)
Interest income	–	5.4	–	6.4	0.8	12.6
Interest expenses	–	(38.9)	–	(72.0)	(12.4)	(123.3)
Share of profits less losses of associated companies and joint ventures	107.1	3.1	3.9	–	–	114.1
Taxation	–	23.2	–	(69.5)	(6.4)	(52.7)
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	53.5	–	186.8	–	240.3

A reconciliation between profit before taxation as shown in the condensed consolidated income statement and recurring profit is as follows.

For the six months ended 30 June US$ millions	**2010**	2009
Profit before taxation		
– Continuing operations	**443.4**	353.3
– A discontinued operation	**–**	1.7
Exclusion of:		
– Foreign exchange and derivative gains (Note 6)	**(10.3)**	(23.2)
– Gain on changes in fair value of plantations (Note 4)	**(2.2)**	(53.8)
– Non-recurring items	**21.2**	(14.9)
Deduction of attributable taxation and non-controlling interests	**(260.2)**	(135.6)
Recurring profit	**191.9**	127.5

3. Net Borrowing Costs

For the six months ended 30 June US$ millions	2010	2009
Bank loans and other loans		
– Wholly repayable within five years	**122.0**	104.9
– Not wholly repayable within five years	**21.7**	24.3
Less borrowing costs capitalized in		
– Property, plant and equipment	**(6.4)**	(2.3)
– Plantations	**(3.8)**	(3.4)
– Other intangible assets	**(0.8)**	(0.2)
Total Borrowing Costs	**132.7**	123.3
Less interest income	**(14.5)**	(12.6)
Net Borrowing Costs	**118.2**	110.7

4. Profit Before Taxation

For the six months ended 30 June US$ millions	2010	2009
Profit Before Taxation is Stated after (Charging)/Crediting		
Cost of inventories sold	**(967.0)**	(750.8)
Employee remuneration	**(227.8)**	(182.7)
Cost of services rendered	**(76.9)**	(58.8)
Depreciation (Note 9)	**(52.2)**	(40.8)
Amortization of other intangible assets	**(33.9)**	(44.1)
Impairment losses for accounts receivable(i)	**(4.2)**	(3.9)
Recognition of prepaid land premiums	**(3.6)**	(2.8)
Loss on dilution of interest in an associated company	**(0.3)**	–
Foreign exchange and derivative gains, net (Note 6)	**5.6**	32.0
Gain on changes in fair value of plantations (Note 2)	**2.2**	53.8
Gain on disposal of a joint venture	**1.8**	–
Gain on sale of property, plant and equipment	**1.3**	0.3
Dividend income from available-for-sale assets	**0.1**	–

(i) Included in distribution costs

5. Taxation

No Hong Kong profits tax (2009: Nil) has been provided as the Group had no estimated assessable profits (2009: Nil) in Hong Kong for the period. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

For the six months ended 30 June US$ millions	**2010**	2009
Subsidiary Companies – Overseas		
Current taxation	**96.2**	61.0
Deferred taxation	**(9.4)**	(8.3)
Total	**86.8**	52.7

Included within the share of profits less losses of associated companies and joint ventures is taxation of US$46.8 million (2009: US$45.5 million) and which is analyzed as follows.

For the six months ended 30 June US$ millions	**2010**	2009
Associated Companies and Joint Ventures – Overseas		
Current taxation	**40.0**	42.2
Deferred taxation	**6.8**	3.3
Total	**46.8**	45.5

6. Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent includes US$5.6 million (2009: US$3.3 million) of net foreign exchange and derivative gains, which represent the foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives, US$1.1 million (2009: US$8.4 million) of a gain on changes in fair value of plantations and US$10.1 million of net non-recurring losses (2009: gains of US$25.1 million).

Analysis of Foreign Exchange and Derivative Gains/(Losses)

For the six months ended 30 June US$ millions	**2010**	2009
Foreign exchange and derivative gains/(losses)		
– Subsidiary companies (Note 4)	**5.6**	32.0
– Associated companies and joint ventures	**4.7**	(8.8)
Subtotal (Note 2)	**10.3**	23.2
Attributable taxation and non-controlling interests	**(4.7)**	(19.9)
Total	**5.6**	3.3

The non-recurring losses of US$10.1 million for 2010 mainly represents the Group's share of Meralco's non-recurring losses, and provision and write-off of certain assets. The non-recurring gains of US$25.1 million for 2009 mainly represent Maynilad's reversal of provision for deferred credits following a resolution of the issue of new tariff rates with the regulator.

7. Ordinary Share Dividend

At a meeting held on 30 August 2010, the Directors declared an interim cash dividend of U.S. 0.77 cent (2009: U.S. 0.51 cent) per ordinary share.

8. Earnings Per Share Attributable to Owners of the Parent

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the parent of US$188.5 million (2009: US$164.3 million), and the weighted average number of ordinary shares of 3,864.7 million (2009: 3,388.0 million (Restated)) in issue during the period.

The calculation of diluted earnings per share is based on: (a) the profit for the period attributable to owners of the parent of US$188.5 million (2009: US$164.3 million) reduced by the dilutive impacts of (i) US$1.6 million (2009: Nil) in respect of the conversion of convertible bonds issued by a subsidiary company and (ii) US$1.3 million (2009: US$0.1 million) in respect of the exercise of share options issued by its subsidiary and associated companies and (b) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,864.7 million (2009: 3,388.0 million (Restated)) in issue during the period (as used in the basic earnings per share calculation) and the weighted average number of ordinary shares of 44.0 million (2009: 39.7 million (Restated)) assumed to have been issued at no consideration on the deemed exercise of the share options of the Company during the period.

9. Property, Plant and Equipment

The movements in property, plant and equipment are set out below.

US$ millions	**2010**	2009
At 1 January	**1,059.0**	808.4
Exchange translation	**35.6**	56.3
Additions	**94.4**	111.6
Acquisition of subsidiary companies (Note 17(B))	**14.7**	–
Depreciation (Note 4)	**(52.2)**	(40.8)
Disposals	**(0.2)**	(1.0)
At 30 June	**1,151.3**	934.5

10. Associated Companies and Joint Ventures

US$ millions	**At 30 June 2010**	At 31 December 2009
PLDT	**1,020.5**	1,050.8
Philex	**565.5**	440.5
MPIC	**712.2**	568.8
Others	**7.1**	7.9
Total	**2,305.3**	2,068.0

11. Other Intangible Assets

US$ millions	At 30 June 2010	At 31 December 2009
Concession assets - Water distribution	**1,050.0**	987.0
Concession assets - Toll roads	**376.1**	359.0
Brands	**385.1**	382.4
Total	**1,811.2**	1,728.4

Concession assets - Water distribution represents the exclusive right granted by Metropolitan Waterworks and Sewerage System (MWSS) on behalf of the Philippine government for Maynilad to provide water distribution and sewerage services and to charge users for these services provided in the area of West Metro Manila during the concession period. Concession assets - Toll roads represents the concession comprising the right, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income held by Manila North Tollways Corporation (MNTC) in respect of the Manila North Expressway (also known as North Luzon Expressway (NLEX)) during the concession period. Brands represent the brands held by PT Indolakto for its various milk-related products.

12. Restricted Cash and Pledged Deposits

At 30 June 2010, the Group had US$17.3 million (31 December 2009: US$17.2 million) of cash which was set aside to cover principal and interest payments of certain borrowings and restricted as to use, and US$12.0 million (31 December 2009: US$12.0 million) of pledged bank deposits.

13. Accounts Receivable, Other Receivables and Prepayments

Included in accounts receivable, other receivables and prepayments are accounts receivables of US$277.3 million (31 December 2009: US$238.4 million) with an ageing profile as follows.

US$ millions	At 30 June 2010	At 31 December 2009
0 to 30 days	**254.1**	190.9
31 to 60 days	**6.0**	10.5
61 to 90 days	**4.4**	11.4
Over 90 days	**12.8**	25.6
Total	**277.3**	238.4

Indofood generally allows export customers 60 days of credit and local customers an average of 30 days of credit. MPIC (a) allows 60 days of credit for its water service customers and (b) collects toll fees through its associated company, Tollways Management Corporation (TMC), by cash, by prepaid and reloadable electronic toll collection devices and by credit card payment.

14. Accounts Payable, Other Payables and Accruals

Included in accounts payable, other payables and accruals are accounts payables of US$230.3 million (31 December 2009: US$185.0 million) with an ageing profile as follows.

US$ millions	**At 30 June 2010**	At 31 December 2009
0 to 30 days	**192.1**	162.9
31 to 60 days	**2.3**	5.1
61 to 90 days	**25.1**	11.6
Over 90 days	**10.8**	5.4
Total	**230.3**	185.0

15. Deferred Liabilities and Provisions

US$ millions	Long-term liabilities	Pension	Others	**2010 Total**	2009 Total
At 1 January	295.0	210.1	75.4	**580.5**	471.8
Exchange translation	(0.1)	7.4	(0.1)	**7.2**	6.6
Additions	19.4	20.6	8.0	**48.0**	75.6
Acquisition of subsidiary companies (Note 17(B))	–	1.7	0.4	**2.1**	–
Payment and utilization	(53.1)	(3.8)	(11.9)	**(68.8)**	(67.3)
At 30 June	261.2	236.0	71.8	**569.0**	486.7
Presented as:					
Current Portion	40.1	–	28.9	**69.0**	81.6
Non-current Portion	221.1	236.0	42.9	**500.0**	405.1
Total	261.2	236.0	71.8	**569.0**	486.7

The long-term liabilities mainly relate to Maynilad's concession fees payable to MWSS and deferred credits (which represent foreign exchange gains and other payables which will be refunded to the customers and foreign exchange differences arising from retranslation of the portion of Maynilad's foreign currency denominated concession fees payable and loans) and Indofood's accrued liabilities for dismantlement, removal or restoration in relation to property, plant and equipment.

The pension relates to accrued liabilities in relation to retirement schemes and long service payments.

16. Commitments and Contingent Liabilities

(A) Capital Expenditure

US$ millions	At 30 June 2010	At 31 December 2009
Commitments in respect of subsidiary companies:		
Authorized, but not contracted for	**378.2**	615.0
Contracted, but not provided for	**12.9**	20.7
Total	**391.1**	635.7

The Group's capital expenditure commitments principally relate to Indofood's purchase of property, plant and equipment, investments in plantations, and Maynilad's and MNTC's construction of water and toll road infrastructure.

(B) Contingent Liabilities

At 30 June 2010, except for US$62.9 million (31 December 2009: US$62.1million) guarantees given by Indofood for loan facilities obtained by certain plantation farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood, the Group had no significant contingent liabilities (31 December 2009: Nil).

17. Notes to the Consolidated Statement of Cash Flows

(A) Increased Investments in Associated Companies

2010's cash outflow of US$13.3 million mainly relates to the payments of (a) the remaining consideration for the acquisition of a 9.2% interest in December 2009 and (b) a 10% installment of the total consideration for the acquisition of a 5.9% interest in January 2010 in Philex by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company. The remaining 90% unpaid portion of the consideration for Two Rivers' acquisition of the 5.9% interest in Philex was satisfied by Two Rivers' issuance of an interest-bearing promissory note with an amount of Pesos 5.4 billion (US$116.9 million) and a fixed interest rate of 5.5% per annum.

(B) Acquisition of Subsidiary Companies

US$ millions	MPIC's acquisition of Riverside and its subsidiary company Provisional fair value recognized on acquisition	 Carrying amount immediately before the acquisition
Consideration		
Cash and cash equivalents	6.0	6.0
Total	6.0	6.0
Net Assets		
Property, plant and equipment (Note 9)	14.7	14.7
Deferred tax assets	0.6	0.6
Other non-current assets	1.3	1.3
Cash and cash equivalents	0.9	0.9
Time deposits with original maturity of more than three months	0.5	0.5
Accounts receivable, other receivables and prepayments (Current)	2.6	2.6
Inventories	0.9	0.9
Accounts payable, other payables and accruals	(3.5)	(3.5)
Short-term borrowings	(0.9)	(0.9)
Current portion of deferred liabilities and provisions (Note 15)	(0.1)	(0.1)
Long-term borrowings	(4.3)	(4.3)
Deferred liabilities and provisions (Note 15)	(2.0)	(2.0)
Deferred tax liabilities	(1.5)	(1.5)
Total Net Assets	9.2	9.2
Non-controlling interests	(4.5)	
Total Net Assets Acquired at Fair Value	4.7	
Goodwill	1.3(i)	
Net Cash Outflow Per the Condensed Consolidated Statement of Cash Flows	(5.1)	

(i) Provisional amount determined assuming the fair values of the identifiable assets acquired and liabilities assumed equal to their carrying amounts immediately before the acquisition, and subject to revision upon further assessment of the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed

In May 2010, MPIC acquired a 51.0% interest in Riverside Medical Center, Inc. (Riverside) at a total consideration of Pesos 276 million (US$6.0 million). Riverside is the largest hospital in Bacolod City and owns Riverside College, Inc., a nursing school.

Since the date of acquisition, the above acquired companies recorded a profit for the year of US$0.1 million, which is included in the condensed consolidated income statement of the Group. If the acquisition had taken place on 1 January 2010, the turnover and net profit of the Group for the period ended 30 June 2010 would have been US$2,168.8 million and US$357.0 million, respectively. The subsidiary company acquired during the period had net cash inflows from operating activities of US$0.1 million and US$0.4 million from investing activities, and had a net cash outflow of US$0.3 million in respect of financing activities during the period.

18. Share Options

Particulars of the share options of the Company and its subsidiary company granted to the Directors and senior executives of the Company and its subsidiary company at 30 June 2010 are set out below.

(A) Particulars of the Company's Share Option Scheme

	Share options held at 1 January 2010	Share options exercised during the period	Share options granted during the period	**Share options held at 30 June 2010**	Share option exercise price per share (i) (HK$)	Market price per share at the date of grant(i) (HK$)	Market price per share during the period of exercise (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors											
Manuel V. Pangilinan	33,517,996	(13,517,996)	–	**20,000,000**	1.6698	1.6698	5.07	1 June 2004	December 2008	June 2005	May 2014
	31,831,556	–	–	**31,831,556**	5.0569	5.0569	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	19,183,256	–	–	**19,183,256**	5.0569	5.0569	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,756,351	(3,000,000)	–	**11,756,351**	1.6698	1.6698	4.76	1 June 2004	December 2008	June 2005	May 2014
	16,337,388	–	–	**16,337,388**	5.0569	5.0569	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors											
Ambassador Albert F. del Rosario	2,993,431	–	–	**2,993,431**	1.6698	1.6698	–	1 June 2004	June 2005	June 2005	May 2014
	3,330,719	–	–	**3,330,719**	5.0569	5.0569	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,993,431	–	–	**2,993,431**	1.6698	1.6698	–	1 June 2004	June 2005	June 2005	May 2014
	3,330,719	–	–	**3,330,719**	5.0569	5.0569	–	5 September 2007	September 2008	September 2008	September 2017
Napoleon L. Nazareno	3,330,000	–	–	**3,330,000**	5.0569	5.0569	–	11 December 2009	December 2010	December 2010	December 2019
Independent Non-Executive Directors											
Graham L. Pickles	3,330,719	–	–	**3,330,719**	5.0569	5.0569	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,412,394	–	–	**1,412,394**	1.6698	1.6698	–	1 June 2004	June 2005	June 2005	May 2014
	3,330,719	–	–	**3,330,719**	5.0569	5.0569	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,330,719	–	–	**3,330,719**	5.0569	5.0569	–	5 September 2007	September 2008	September 2008	September 2017
Jun Tang	3,330,000	–	–	**3,330,000**	5.0569	4.61	–	11 December 2009	December 2011	December 2011	December 2019
Senior Executives	30,600,455	(4,491,715)	–	**26,108,740**	1.6698	1.6698	5.12-5.36	1 June 2004	December 2008	June 2005	May 2014
	4,743,113	(2,000,000)	–	**2,743,113**	3.1072	3.1072	5.14-5.26	7 June 2006	December 2010	June 2007	June 2016
	44,500,938	–	–	**44,500,938**	5.0569	5.0569	–	5 September 2007	September 2012	September 2008	September 2017
	–	–	5,400,000	**5,400,000**	5.31	5.31	–	18 June 2010	June 2015	June 2012	June 2020
Total	226,183,904	(23,009,711)	5,400,000	**208,574,193**							

(i) *Adjusted for the effect of the Company's rights issue completed in December 2009 for the prices prior to the trading of the Company's shares on an ex-rights basis on 29 October 2009*

	Share options held at 1 January 2009	Share options exercised during the period	Share options granted during the period	Share options held at 30 June 2009	Share option exercise price per share (ii) (HK$)	Market price per share at the date of grant(ii) (HK$)	Market price per share during the period of exercise (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors											
Manuel V. Pangilinan	31,800,000	–	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	30,200,000	–	–	30,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	3,560,000	(3,560,000)	–	–	1.76	1.76	3.77	1 June 2004	December 2008	June 2005	May 2014
	18,200,000	–	–	18,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,000,000	–	–	14,000,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	15,500,000	–	–	15,500,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors											
Ambassador Albert F. del Rosario	2,840,000	–	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,840,000	–	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Independent Non-Executive Directors											
Graham L. Pickles	3,160,000	–	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,340,000	–	–	1,340,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,160,000	–	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Senior Executives	29,032,000	–	–	29,032,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	4,500,000	–	–	4,500,000	3.275	3.25	–	7 June 2006	December 2010	June 2007	June 2016
	42,220,000	–	–	42,220,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Total	211,832,000	(3,560,000)	–	208,272,000							

(ii) Before adjusting for the effect of the Company's rights issue completed in December 2009

On 18 June 2010, 5,400,000 share options under a share option scheme approved by the shareholders of First Pacific Company Limited (the Company) (at the Company's annual general meeting held on 24 May 2004) were granted. The average fair value of options granted as calculated by Towers Watson Hong Kong Limited, based on the binomial model, was HK$2.28 per share or an aggregate value of US$1.6 million for all options granted. The assumptions used were as follows:

Share price at the date of grant	HK$5.31 per share
Exercise price	HK$5.31 per share
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	45%
Option life	10 years
Expected dividend yield	2% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	2.3% per annum

Taking into account the expected turnover rate of the senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be around 8 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 250% higher than the exercise price.

The binomial model, applied for determining the estimated values of the share options granted under the Scheme, was developed for use in estimating the fair value of the traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of the traded options, changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Further information regarding the Company's share option scheme has been set out on pages 144 to147 of the Company's 2009 Annual Report.

(B) Particulars of MPIC's Share Option Scheme

	Share options held at 1 January 2010	Share options exercised during the period	Share options cancelled during the period	**Share options held at 30 June 2010**	Share option exercise price per share (Peso)	Market price per share at the date of grant (Peso)	Market price per share during the period of exercise (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors											
Manuel V. Pangilinan	7,500,000	–	–	**7,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	7,500,000	–	–	**7,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Edward A. Tortorici	5,000,000	–	–	**5,000,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	5,000,000	–	–	**5,000,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Ambassador Albert F. del Rosario	2,500,000	–	–	**2,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	2,500,000	–	–	**2,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Senior Executives	36,135,000	(500,000)	(5,250,000)	**30,385,000**	2.12	2.10	3.20	9 December 2008	January 2010	January 2009	January 2013
	37,870,000	–	(5,870,000)	**32,000,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Total	104,005,000	(500,000)	(11,120,000)	**92,385,000**							

	Share options held at 1 January 2009	Share options exercised during the period	Share options granted during the period	Share options held at 30 June 2009	Share option exercise price per share (Peso)	Market price per share at the date of grant (Peso)	Market price per share during the period of exercise (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors											
Manuel V. Pangilinan	7,500,000	–	–	7,500,000	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	–	7,500,000	7,500,000	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Edward A. Tortorici	5,000,000	–	–	5,000,000	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	–	5,000,000	5,000,000	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Ambassador Albert F. del Rosario	2,500,000	–	–	2,500,000	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	–	2,500,000	2,500,000	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Senior Executives	46,000,000	(2,250,000)	–	43,750,000	2.12	2.10	5.60	9 December 2008	January 2010	January 2009	January 2013
	–	(1,250,000)	47,925,245	46,675,245	2.73	2.65	5.60	10 March 2009	March 2010	March 2009	March 2013
Total	61,000,000	(3,500,000)	62,925,245	120,425,245							

Further information regarding MPIC's share option scheme has been set out on pages 148 and 149 of the Company's 2009 Annual Report.

19. Related Party Transactions

Significant related party transactions entered into by the Group during the period are disclosed as follows:

(A) In April 2010, the Company purchased US$20.0 million of U.S. dollar from Philex at a forward rate of Pesos 45.03 per U.S. dollar for converting part of the Company's peso-denominated funds into U.S. dollar for working capital requirements.

(B) Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, has a technical assistance agreement with Smart Communications, Inc. (Smart), a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% (2009: 1%) of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to Pesos 313 million (US$6.8 million) for the period ended 30 June 2010 (2009: Pesos 322 million or US$6.7 million). At 30 June 2010, the outstanding technical service fee payable amounted to Pesos 48 million (US$1.0 million) (31 December 2009: Pesos 188 million or US$4.1 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of the Company and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of Transactions

For the six months ended 30 June US$ millions	**2010**	2009
Income Statement Items		
Sales of finished goods		
– to associated companies and joint ventures	**22.5**	14.0
– to affiliated companies	**40.6**	25.1
Purchases of raw materials		
– from associated companies and joint ventures	**20.6**	19.4
– from affiliated companies	**8.3**	5.7
Management and technical services fee income and royalty income		
– from associated companies and joint ventures	**–**	0.5
– from affiliated companies	**3.5**	2.5
Insurance expenses		
– to affiliated companies	**1.5**	1.4
Rental expenses		
– to affiliated companies	**0.5**	0.5
Transportation and pump services expenses		
– to affiliated companies	**0.2**	0.2

Approximately 3% (2009: 2%) of Indofood's sales and 2% (2009: 2%) of its purchases were transacted with these related parties.

Nature of Balances

US$ millions	**At 30 June 2010**	At 31 December 2009
Statement of Financial Position Items		
Accounts receivable – trade		
– from associated companies and joint ventures	**7.6**	3.3
– from affiliated companies	**10.1**	8.7
Accounts receivable – non-trade		
– from associated companies and joint ventures	**0.4**	–
– from affiliated companies	**15.0**	12.2
Accounts payable – trade		
– to associated companies and joint ventures	**10.5**	6.2
– to affiliated companies	**3.7**	2.6
Accounts payable – non-trade		
– to associated companies and joint ventures	**0.5**	0.2
– to affiliated companies	**24.8**	30.5

(D) For the period ended 30 June 2010, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. (DMCI) (a shareholder holding a 44.6% interest in DMWC, Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. (Consunji), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. (DMCIPD), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of Transactions

For the six months ended 30 June US$ millions	**2010**	2009
Income Statement Items		
Rental expenses	**0.1**	0.1
Capital Expenditure Items		
Construction services for water infrastructure obtained	**63.5**	21.2

Nature of Balances

US$ millions	**At 30 June 2010**	At 31 December 2009
Statement of Financial Position Items		
Accounts payable – trade	**29.3**	8.0

(E) During the period ended 30 June 2010, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those offered to non-related parties, are disclosed as follows:

Nature of Transactions

For the six months ended 30 June US$ millions	**2010**	2009
Income Statement Items		
Operator's fee	**14.7**	14.3
Management income	**0.5**	0.1
Guarantee income	**0.1**	0.2
Interest income	**–**	0.2

Nature of Balances

US$ millions	**At 30 June 2010**	At 31 December 2009
Statement of Financial Position Items		
Accounts receivable – trade	**1.2**	3.1
Accounts payable – trade	**5.7**	6.1

20. Comparative Amounts

Due to the Group's early adoption of HKAS 32 Amendment "Classification of Rights Issues" (effective for annual periods beginning on or after 1 February 2010) in 2009, the comparative basic and diluted earnings per share figures for the six-month period ended 30 June 2009 have been restated to take into account the effect of the Company's rights issue (on the basis of one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share) completed in December 2009.

21. Approval of the Interim Condensed Consolidated Financial Statements

The Condensed Interim Financial Statements were approved and authorized for issue by the Board of Directors on 30 August 2010.

ERNST & YOUNG

Independent Auditors' Report

TO THE SHAREHOLDERS OF FIRST PACIFIC COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the Financial Statements of First Pacific Company Limited set out on pages 88 to 157, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these Financial Statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

23 March 2010

Consolidated Income Statement

For the year ended 31 December US$ millions	Notes	2009	2008 (Restated)[i]
Turnover	4	**3,925.6**	4,105.3
Cost of sales		**(2,739.9)**	(3,103.4)
Gross Profit		**1,185.7**	1,001.9
Gain on dilutions and divestments		**85.9**	28.7
Distribution costs		**(289.0)**	(273.9)
Administrative expenses		**(286.8)**	(256.8)
Other operating income/(expenses), net		**105.1**	(144.9)
Net borrowing costs	5	**(230.3)**	(150.5)
Share of profits less losses of associated companies and joint ventures		**233.4**	192.9
Profit Before Taxation	6	**804.0**	397.4
Taxation	7	**(143.7)**	(61.4)
Profit for the Year from Continuing Operations		**660.3**	336.0
Profit for the year from a discontinued operation	8	**1.1**	0.6
Profit for the Year		**661.4**	336.6
Attributable to:			
Owners of the parent	9	**401.6**	200.8
Minority interest		**259.8**	135.8
		661.4	336.6
Ordinary Share Dividends	10		
Interim – U.S. 0.51 cent (2008: U.S. 0.38 cent) per share		**16.5**	12.3
Proposed final – U.S. 1.03 cents (2008: U.S. 0.77 cent) per share		**39.6**	24.7
Total		**56.1**	37.0
Earnings Per Share Attributable to Owners of the Parent (U.S. cents)	11		
Basic			
– For profit from continuing operations		**11.64**	5.91
– For profit from a discontinued operation		**0.07**	–
– For profit for the year		**11.71**	5.91
Diluted			
– For profit from continuing operations		**11.28**	5.63
– For profit from a discontinued operation		**0.07**	–
– For profit for the year		**11.35**	5.63

(i) Refer to Note 2(B)

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December US$ millions	**2009**	2008
Profit for the Year	**661.4**	336.6
Other Comprehensive Income/(Loss)		
Exchange differences on translating foreign operations	**298.6**	(337.1)
Realized exchange and capital reserve upon dilution of interest in subsidiary companies	**9.0**	0.2
Realized exchange reserve upon divestment and dilution of interest in associated companies	**–**	(0.3)
Unrealized gains on available-for-sale assets	**16.9**	2.9
Realized gains on available-for-sale assets	**(3.6)**	(0.1)
Unrealized losses on cash flow hedges	**(5.8)**	(8.8)
Realized losses on cash flow hedges	**1.5**	–
Income tax related to cash flow hedges	**1.1**	2.9
Share of revaluation increment of an associated company's assets	**12.7**	–
Other comprehensive income/(loss) for the year, net of tax	**330.4**	(340.3)
Total Comprehensive Income/(Loss) for the Year	**991.8**	(3.7)
Attributable to:		
Owners of the parent	**540.7**	36.4
Minority interest	**451.1**	(40.1)
	991.8	(3.7)

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position

At 31 December US$ millions	Notes	2009	2008
Non-current Assets			
Property, plant and equipment	12	**1,059.0**	808.4
Plantations	13	**1,009.2**	744.5
Associated companies and joint ventures	15	**2,068.0**	1,202.3
Goodwill	16	**775.2**	675.6
Other intangible assets	17	**1,728.4**	1,538.5
Accounts receivable, other receivables and prepayments	18	**6.6**	3.0
Prepaid land premiums	19	**183.0**	153.2
Available-for-sale assets	20	**2.1**	1.7
Deferred tax assets	21	**58.3**	38.7
Other non-current assets	22	**305.9**	217.1
		7,195.7	5,383.0
Current Assets			
Cash and cash equivalents	23	**936.6**	625.9
Pledged deposits and restricted cash	24	**29.2**	12.0
Available-for-sale assets	20	**40.4**	56.9
Accounts receivable, other receivables and prepayments	18	**639.1**	435.5
Inventories	25	**549.2**	557.4
Assets held for sale	8	**7.1**	–
		2,201.6	1,687.7
Assets of a disposal group classified as held for sale	8	**–**	128.3
		2,201.6	1,816.0
Current Liabilities			
Accounts payable, other payables and accruals	26	**628.2**	667.4
Short-term borrowings	27	**829.7**	1,207.0
Provision for taxation	28	**68.9**	55.8
Current portion of deferred liabilities and provisions	29	**73.5**	39.4
		1,600.3	1,969.6
Liabilities directly associated with the assets classified as held for sale	8	**–**	106.1
		1,600.3	2,075.7
Net Current Assets/(Liabilities)		**601.3**	(259.7)
Total Assets Less Current Liabilities		**7,797.0**	5,123.3
Equity			
Issued share capital	30	**38.6**	32.1
Retained earnings		**556.4**	196.0
Other components of equity	31	**1,321.2**	902.0
Equity attributable to owners of the parent		**1,916.2**	1,130.1
Minority interest	32	**2,122.9**	1,245.1
Total Equity		**4,039.1**	2,375.2
Non-current Liabilities			
Long-term borrowings	27	**2,855.6**	1,951.7
Deferred liabilities and provisions	29	**507.0**	432.4
Deferred tax liabilities	21	**395.3**	364.0
		3,757.9	2,748.1
		7,797.0	5,123.3

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

On behalf of the Board of Directors

MANUEL V. PANGILINAN
Managing Director and Chief Executive Officer

EDWARD A. TORTORICI
Executive Director

23 March 2010

Company Statement of Financial Position

At 31 December US$ millions	Notes	2009	2008
Non-current Assets			
Subsidiary companies	14	**996.2**	996.2
		996.2	996.2
Current Assets			
Cash and cash equivalents	23	**262.2**	45.9
Amounts due from subsidiary companies	14(A)	**2,062.9**	1,889.5
Other receivables and prepayments		**0.1**	0.1
		2,325.2	1,935.5
Current Liabilities			
Amounts due to subsidiary companies	14(B)	**782.4**	832.6
Other payables and accruals		**0.8**	0.6
		783.2	833.2
Net Current Assets		**1,542.0**	1,102.3
Total Assets Less Current Liabilities		**2,538.2**	2,098.5
Equity			
Issued share capital	30	**38.6**	32.1
Retained earnings		**307.9**	344.0
Other components of equity		**1,461.8**	1,182.2
Equity attributable to owners of the parent		**1,808.3**	1,558.3
Non-current Liabilities			
Loans from subsidiary companies	14(C)	**729.9**	540.2
		2,538.2	2,098.5

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

On behalf of the Board of Directors

MANUEL V. PANGILINAN
Managing Director and Chief Executive Officer

EDWARD A. TORTORICI
Executive Director

23 March 2010

Consolidated Statement of Changes in Equity

US$ millions	Notes	Equity attributable to owners of the parent: Issued share capital	Share premium	Share options issued	Exchange reserve	Unrealized gains/ (losses) on available-for-sale assets	Unrealized gains/ (losses) on cash flow hedges	Income tax related to cash flow hedges	Capital and other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008		32.2	971.7	17.6	44.0	10.3	11.0	(3.7)	(2.3)	50.5	1,131.3	991.7	2,123.0
Total comprehensive income for the year		–	–	–	(160.0)	1.5	(8.8)	2.9	–	200.8	36.4	(40.1)	(3.7)
Issue of shares upon the exercise of share options	30(A)	0.1	2.4	(0.9)	–	–	–	–	–	–	1.6	–	1.6
Repurchase and cancellation of shares		(0.2)	–	–	–	–	–	–	0.2	(10.1)	(10.1)	–	(10.1)
Equity-settled share option arrangements		–	–	18.0	–	–	–	–	–	–	18.0	–	18.0
2007 special dividend		–	–	–	–	–	–	–	–	(12.3)	(12.3)	–	(12.3)
2007 final dividend		–	–	–	–	–	–	–	–	(20.6)	(20.6)	–	(20.6)
2008 interim dividend	10	–	–	–	–	–	–	–	–	(12.3)	(12.3)	–	(12.3)
Reserve of a disposal group classified as assets held for sale		–	–	–	–	(0.1)	–	–	0.1	–	–	–	–
Acquisition of subsidiary companies	33(C)	–	–	–	–	–	0.5	–	(2.4)	–	(1.9)	295.1	293.2
Change in attributable interests		–	–	–	–	–	–	–	–	–	–	25.7	25.7
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(27.3)	(27.3)
Balance at 31 December 2008		32.1	974.1	34.7	(116.0)	11.7	2.7	(0.8)	(4.4)	196.0	1,130.1	1,245.1	2,375.2
Balance at 1 January 2009		32.1	974.1	34.7	(116.0)	11.7	2.7	(0.8)	(4.4)	196.0	1,130.1	1,245.1	**2,375.2**
Total comprehensive income for the year		–	–	–	117.2	10.7	(3.9)	1.1	14.0	401.6	540.7	451.1	**991.8**
Issue of shares upon the exercise of share options	30(A)	–	1.2	(0.4)	–	–	–	–	–	–	0.8	–	**0.8**
Issue of shares in respect of rights issue	30(B)	6.5	270.6	–	–	–	–	–	–	–	277.1	–	**277.1**
Equity-settled share option arrangements	35(A)	–	–	8.8	–	–	–	–	–	–	8.8	0.5	**9.3**
2008 final dividend	10	–	–	–	–	–	–	–	–	(24.7)	(24.7)	–	**(24.7)**
2009 interim dividend	10	–	–	–	–	–	–	–	–	(16.5)	(16.5)	–	**(16.5)**
Disposal of a disposal group classified as assets held for sale		–	–	–	–	–	–	–	(0.1)	–	(0.1)	(6.4)	**(6.5)**
Acquisition of minority interest		–	–	–	–	–	–	–	–	–	–	(8.4)	**(8.4)**
Change in attributable interests		–	–	–	–	–	–	–	–	–	–	481.9	**481.9**
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(40.9)	**(40.9)**
Balance at 31 December 2009		**38.6**	**1,245.9**	**43.1**	**1.2**	**22.4**	**(1.2)**	**0.3**	**9.5**	**556.4**	**1,916.2**	**2,122.9**	**4,039.1**

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Company Statement of Changes in Equity

US$ millions	Notes	Issued share capital	Share premium	Share options issued	Capital redemption reserve	Contributed surplus	Retained earnings	Total
Balance at 1 January 2008		32.2	971.7	17.0	–	173.8	348.1	1,542.8
Profit for the year		–	–	–	–	–	51.2	51.2
Issue of shares upon the exercise of share options	30(A)	0.1	2.4	(0.9)	–	–	–	1.6
Repurchase and cancellation of shares		(0.2)	–	–	0.2	–	(10.1)	(10.1)
Equity-settled share option arrangements		–	–	18.0	–	–	–	18.0
2007 special dividend		–	–	–	–	–	(12.3)	(12.3)
2007 final dividend		–	–	–	–	–	(20.6)	(20.6)
2008 interim dividend	10	–	–	–	–	–	(12.3)	(12.3)
Balance at 31 December 2008		32.1	974.1	34.1	0.2	173.8	344.0	**1,558.3**
Profit for the year		–	–	–	–	–	5.1	**5.1**
Issue of shares upon the exercise of share options	30(A)	–	1.2	(0.4)	–	–	–	**0.8**
Issue of shares in respect of rights issue	30(B)	6.5	270.6	–	–	–	–	**277.1**
Equity-settled share option arrangements		–	–	8.2	–	–	–	**8.2**
2008 final dividend	10	–	–	–	–	–	(24.7)	**(24.7)**
2009 interim dividend	10	–	–	–	–	–	(16.5)	**(16.5)**
Balance at 31 December 2009		**38.6**	**1,245.9**	**41.9**	**0.2**	**173.8**	**307.9**	**1,808.3**

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 December US$ millions	Notes	2009	2008
Profit Before Taxation			
From continuing operations		**804.0**	397.4
From a discontinued operation		**0.1**	1.3
Adjustments for:			
Interest expenses	5	**257.8**	185.3
Depreciation	6	**94.2**	79.2
Amortization of other intangible assets	17	**83.7**	27.3
Impairment losses recognized	6	**12.4**	43.9
Loss/(gain) on sale of property, plant and equipment	6	**9.6**	(0.6)
Equity-settled share option expense	35(A)	**9.3**	18.0
Recognition of prepaid land premiums	6	**8.1**	7.1
Share of profits less losses of associated companies and joint ventures		**(233.4)**	(192.9)
Gain on dilution of interest in subsidiary companies	6	**(84.7)**	(18.9)
Foreign exchange and derivative (gains)/losses, net	6	**(72.6)**	83.2
Increase in other non-current assets		**(71.0)**	(35.7)
(Gain)/loss on changes in fair value of plantations	6	**(60.2)**	97.7
Interest income	5	**(27.5)**	(34.8)
Realized gain on sale of available-for-sale assets	6	**(3.6)**	(0.1)
(Increase)/decrease in accounts receivable, other receivables and prepayments (Non-current)		**(1.5)**	37.5
Gain on divestment and dilution of interest in an associated company	6	**(1.2)**	(9.8)
Dividend income from available-for-sale assets	6	**(0.1)**	(0.5)
Others		**3.3**	(8.0)
		726.7	676.6
(Decrease)/increase in accounts payable, other payables and accruals		**(229.4)**	69.1
Decrease/(increase) in inventories		**91.2**	(160.3)
Increase in accounts receivable, other receivables and prepayments (Current)		**(155.5)**	(151.6)
Net cash generated from operations[i]		**433.0**	433.8
Interest received		**21.3**	40.7
Interest paid		**(244.3)**	(196.9)
Tax paid	28	**(150.9)**	(112.4)
Net Cash Flows from Operating Activities		**59.1**	165.2

(i) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies.

continued/...

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December US$ millions	Notes	2009	2008
Dividends received from associated companies	15(B)	**210.6**	211.9
Proceeds from disposal of available-for-sale assets		**43.3**	–
Proceeds from sale of property, plant and equipment		**5.6**	20.8
Proceeds from divestment of interest in an associated company		**2.5**	–
Investments in associated companies	33(A)	**(274.5)**	(140.5)
Increased investments in associated companies	33(B)	**(271.2)**	–
Purchase of property, plant and equipment		**(221.8)**	(163.4)
Investments in other intangible assets		**(99.3)**	(67.8)
Investments in plantations		**(68.7)**	(76.7)
Increased investments in subsidiary companies		**(10.4)**	–
Investments in a joint venture		**(5.3)**	–
Acquisition of available-for-sale assets		**(0.9)**	(38.9)
Acquisition of subsidiary companies		**(0.8)**	(611.8)
Loans and advances to a joint venture, net		**–**	(19.0)
Deposits for increased investments in subsidiary companies		**–**	(12.9)
Net Cash Flows Used in Investing Activities		**(690.9)**	(898.3)
Proceeds from new borrowings		**1,805.4**	1,871.1
Shares issued to minority interest by a subsidiary company		**286.9**	–
Proceeds from rights issue of the Company		**277.1**	–
Proceeds from sale of treasury shares by a subsidiary company		**18.2**	62.1
Proceeds from the issue of shares upon the exercise of share options		**1.5**	1.6
Borrowings repaid		**(1,384.8)**	(1,050.9)
Increase in time deposits with original maturity of more than three months		**(50.9)**	–
Dividends paid to shareholders		**(41.2)**	(45.2)
Dividends paid to minority shareholders by subsidiary companies		**(40.9)**	(27.3)
Increase in restricted cash		**(16.7)**	–
Repurchase of shares		**–**	(10.1)
Repurchase of subsidiary companies' shares		**–**	(7.7)
Net Cash Flows from Financing Activities		**854.6**	793.6
Net Increase in Cash and Cash Equivalents		**222.8**	60.5
Cash and cash equivalents at 1 January		**625.9**	600.8
Exchange translation		**35.2**	(35.4)
Cash and Cash Equivalents at 31 December		**883.9**	625.9
Representing			
Cash and cash equivalents		**936.6**	625.9
Less time deposits with original maturity of more than three months		**(52.7)**	–
Cash and Cash Equivalents at 31 December		**883.9**	625.9

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

1. Corporate Information

First Pacific Company Limited is a Hong Kong-based investment and management company with operations located in Asia. Its principal business interests relate to telecommunications, consumer food products, infrastructure and natural resources.

The Group comprises the Company and its subsidiary companies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's ordinary shares are listed on the SEHK. Its shares are also available for trading in the United States through ADRs.

2. Basis of Preparation and Summary of Principal Accounting Policies

(A) Basis of Preparation

The Financial Statements have been prepared in accordance with HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA, Hong Kong GAAP, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The Financial Statements have been prepared under the historical cost convention except for plantations, available-for-sale assets and derivative financial instruments which, as disclosed in the accounting policies below, are stated at fair value. These Financial Statements are presented in United States (U.S.) dollars and rounded to the nearest million (US$ millions) with one decimal place except when otherwise indicated.

(B) Impact of New and Revised HKFRSs

During 2009, the Group adopted the following new and revised HKFRSs issued by the HKICPA for the first time for the current year's financial statements:

HKAS 1 (Revised)	"Presentation of Financial Statements"(i)
HKAS 18 Amendment	"Determining whether an Entity is Acting as a Principal or as an Agent"(i)
HKAS 23 (Revised)	"Borrowing Costs"(i)
HKAS 32 and HKAS 1 Amendments	"Puttable Financial Instruments and Obligations Arising on Liquidation"(i)
HKFRS 1 and HKAS 27 Amendments	"Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"(i)
HKFRS 2 Amendments	"Vesting Conditions and Cancellations"(i)
HKFRS 7 Amendments	"Improving Disclosures about Financial Instruments"(i)
HKFRS 8	"Operating Segments"(i)
HK(IFRIC)-Int 9 and HKAS 39 Amendments	"Reassessment of Embedded Derivatives" and "Embedded Derivatives"(ii)
HK(IFRIC)-Int 13	"Customer Loyalty Programmes"(iii)
HK(IFRIC)-Int 15	"Agreements for the Construction of Real Estate"(i)
HK(IFRIC)-Int 16	"Hedges of a Net Investment in a Foreign Operation"(iv)
HK(IFRIC)-Int 18	"Transfers of Assets from Customers"(v)
Improvements to HKFRSs	"Improvements to HKFRSs"(vi)

(i) Effective for annual periods commencing on or after 1 January 2009
(ii) Effective for annual periods ending on or after 30 June 2009
(iii) Effective for annual periods commencing on or after 1 July 2008
(iv) Effective for annual periods commencing on or after 1 October 2008
(v) Effective for the transfer of assets from customers received on or after 1 July 2009
(vi) Generally effective for annual periods commencing on or after 1 January 2009, unless otherwise stated in specific HKFRSs

The adoption of the above new and revised HKFRSs has had no effect on both the profit attributable to owners of the parent for the years ended 31 December 2009 and 31 December 2008 and equity attributable to owners of the parent at 31 December 2009 and 31 December 2008, but has only resulted in certain changes to the presentation of financial statements and disclosures.

During 2009, the Group has also early adopted HKAS 32 Amendment "Classification of Rights Issues", which is effective for annual periods beginning on or after 1 February 2010, with early adoption permitted, and has applied it retrospectively. The amendment revises the definition of financial liabilities such that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights issues, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The offer of rights shares by the Company to its shareholders in November 2009, on the basis of one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share, was accounted for as an equity instrument of the Group in its Financial Statements.

In December 2009, the Company completed the rights issue. The effect of the bonus element included within the rights issue has been included within the calculations of basic and diluted earnings per share for the year, through an adjustment to the weighted average number of ordinary and dilutive potential ordinary shares outstanding. Comparative amounts have been restated on this basis.

(C) Impact of Issued but not yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these Financial Statements.

HKAS 24 (Revised)	"Related Party Disclosures"
HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"
HKAS 39 Amendment	"Eligible Hedged Items"
HKFRS 1 (Revised)	"First-time Adoption of Hong Kong Financial Reporting Standards"
HKFRS 1 Amendments	"Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters" and "Additional Exemptions for First-time Adopters"
HKFRS 2 Amendments	"Group Cash-settled Share-based Payment Transactions"
HKFRS 3 (Revised)	"Business Combinations"
HKFRS 9	"Financial Instruments"
HK(IFRIC)-Int 14 Amendments	"Prepayments of a Minimum Funding Requirement"
HK(IFRIC)-Int 17	"Distributions of Non-cash Assets to Owners"
HK(IFRIC)-Int 19	"Extinguishing Financial Liabilities with Equity Instruments"
HK Interpretation 4 (Revised)	"Lease – Determination of the Length of Lease Term in respect of Hong Kong Leases"
Improvements to HKFRSs	"Improvements to HKFRSs" and "Improvements to HKFRSs 2009"

HKAS 24 (Revised) shall be applied for annual periods beginning on or after 1 January 2011. The revised standard clarifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by a government.

HKAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised standard replaces the term "minority interest" with "non-controlling interest" and requires changes in a parent's ownership interest in a subsidiary company that do not result in a loss of control to be accounted for as equity transactions.

HKAS 39 Amendment shall be applied for annual periods commencing on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

HKFRS 1 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised version has an improved structure but does not contain any changes in accounting treatments.

HKFRS 1 Amendments shall be applied for annual periods beginning on or after 1 January 2010. The amendments exempt (a) entities using the full cost method from retrospective application of HKFRSs for oil and gas assets; and (b) entities with existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” when the application of their other accounting requirements produced the same result.

HKFRS 2 Amendments shall be applied to annual periods beginning on or after 1 January 2010. The amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions.

HKFRS 3 (Revised) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the annual period beginning on 1 July 2009. The revised standard requires (a) for partial acquisitions, non- controlling interests shall be measured either as their proportionate interests in the net identifiable assets or at fair value; (b) for step acquisitions, goodwill shall be measured as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired; (c) the recognition of acquisition-related costs as expenses, rather than included in goodwill and (d) the recognition of contingent consideration measured at fair value at the acquisition date.

HKFRS 9 shall be applied for annual periods beginning on or after 1 January 2013. The standard simplifies the many different rules in HKAS 39 into a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

HK(IFRIC)-14 Amendments be applied for annual periods beginning on or after 1 January 2011. The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (a) the prepayment for future services and (b) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments.

HK(IFRIC)-Int 17 shall be applied for annual periods beginning on or after 1 July 2009. This interpretation provides guidance to the entities which distributes assets other than cash (i.e., non-cash assets to its owners acting in their capacity as owners) The interpretation requires entities to (a) recognize the dividend payable when the dividend is appropriately authorized and is no longer at the discretion of the entity; (b) measure the dividend payable at the fair value of the assets to be distributed and (c) recognize the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit and loss when the entities settle the dividend payable.

HK(IFRIC)-Int 19 shall be applied for annual periods beginning on or after 1 July 2010. This interpretation clarifies that (a) the entity’s equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (b) the equity instruments issued are measured at their fair value and (c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity’s profit or loss for the period.

HK Interpretation 4 (Revised) shall be applied for annual periods beginning on or after 1 January 2010. The revised standard has expanded its scope to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16 “Property, Plant and Equipment”, HKAS 17 “Leases” and HKAS 40 “Investment Property”.

Improvements to HKFRSs and Improvements to HKFRSs 2009 sets out certain amendments to HKFRSs made in response to the International Accounting Standards Board's annual improvement projects, which include certain changes that may result in accounting changes for presentation, recognition or measurement purposes. The key amendments are summarized as follows.

HKAS 1 "Presentation of Financial Statements" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment clarifies that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments (i.e. for a liability component of a convertible instrument) do not affect its classification as a current liability if there is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

HKAS 7 "Statement of Cash Flows" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

HKAS 17 "Leases" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment (a) clarifies that an entity should assess the classification of land and building elements as a finance or an operating lease separately in accordance with the requirements set out in HKAS 17; (b) suggests that in determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life and (c) requires that an entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments on the basis of information existing at the inception of those leases.

HKAS 36 "Impairment of Assets" Amendment shall be applied prospectively for annual periods beginning on or after 1 January 2010. The amendment clarifies that for the purpose of impairment testing, each unit or the group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by HKFRS 8 "Operating Segments" before aggregation.

HKAS 38 "Intangible assets" Amendment shall be applied prospectively for annual periods beginning on or after 1 July 2009. The amendment suggests the techniques may be used for initial measurement of an intangible asset acquired in a business combination if the objective is to estimate fair value and to reflect current transactions and practices in the industry to which the intangible asset belongs. These techniques include (a) discounting estimated future net cash flows from the asset; (b) estimating the costs the entity avoids by owning the intangible asset and not owning it; (c) to license it from another party in an arm's length transaction; or (d) to recreate or replace it.

HKAS 39 "Financial Instruments: Recognition and Measurement" Amendment shall be applied prospectively for annual periods beginning on or after 1 January 2010. The amendment (a) clarifies that the standard shall be applied by all entities to all types of financial instruments except for any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date and (b) clarifies that if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

HKFRS 2 "Share-based Payment" Amendment shall be applied for annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity shall not apply HKFRS 2 to transactions in which the entity acquires goods (e.g. inventories, plant and equipment, intangible assets and other non-financial assets) as part of the net assets acquired in a business combination as defined by HKFRS 3 "Business Combinations" or the contribution of a business on the formation of a joint venture as defined by HKAS 31 "Interests in Joint Ventures" i.e. HKFRS 2 shall not be applied for an entity's shares issued for business combinations and investments in joint ventures.

HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" Amendments included in "Improvements to HKFRSs" issued in October 2008 shall be applied for annual periods beginning on or after 1 July 2009. The amendments require an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all assets and liabilities of that subsidiary as held for sale when the criteria set out in HKFRS 5 are met. The amendments included in "Improvements to HKFRSs 2009" issued in May 2009 contain certain changes that shall be applied for annual periods beginning on or after 1 January 2010 which (a) specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations and (b) clarifies that disclosures in other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require: (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

HKFRS 8 "Operating Segments" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment requires that an entity shall report a measure of profit or loss for each reportable segment and a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating officer.

HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" Amendment shall be applied prospectively for annual periods beginning on or after 1 July 2009. The interpretation does not apply to embedded derivatives in contracts acquired in (a) a business combination; (b) a combination of entities or business under common control as described in HKFRS 3 (revised 2008); and (c) the formation of a joint venture as defined in HKAS 31 "Interests in Joint Ventures" or their possible reassessment at the date of acquisition.

HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation" Amendment shall be effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies that a derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) can be designated as a hedging instrument in a hedge of a net investment in a foreign operation, which can be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

The Group has not early adopted the above new and revised HKFRSs for the year ended 31 December 2009. The Company has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position and presentation of its Financial Statements.

(D) Summary of Principal Accounting Policies

(a) Basis of consolidation

The Financial Statements include the financial statements of the Company and its subsidiary companies for the year ended 31 December 2009. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A subsidiary company is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, being the date on which the Group obtains control, or up to the effective date of disposal, as appropriate. The gain or loss on disposal of a subsidiary company represents the difference between the net proceeds from sale and the Group's share of its net assets, including the attributable carrying amount of goodwill.

The acquisition of subsidiary companies during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity investments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interest represents the interests of minority shareholders not held by the Group in the results and net assets of the Company's subsidiary companies. An acquisition of a minority interest is accounted for using the parent entity extension method whereby the difference between the consideration and the existing carrying amount of the share of the net assets acquired is recognized as goodwill.

For business combinations involving entities or businesses under common control (a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory), they are accounted for applying the principles of merger accounting which is consistent with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The method requires the combined entity to recognize the assets, liabilities and equity of the combining entities or businesses at the carrying amounts (i.e., existing book values from the controlling parties' perspective) in the consolidated financial statements of the controlling party or parties prior to the common control combination. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities over the cost at the time of the common control combination to the extent of the controlling party's or parties' interests.

In the Company's statement of financial position, investments in subsidiary companies are stated at cost less any provision for impairment losses. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

(b) Cash and cash equivalents

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

(c) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method, the weighted average method or the moving average method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. The cost of goods purchased for resale includes costs incurred in bringing the goods to their present location. Net realizable value is determined on the basis of current anticipated selling prices less estimates of costs to completion and selling expenses.

(d) Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses, calculated on the straight-line basis at annual rates estimated to write off their book values to residual values over their expected useful lives. Details of depreciation rates are set out in Note 12(A).

The initial cost of property, plant and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency denominated liabilities used to acquire such assets. Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

(e) Plantations

Plantations, which primarily comprise oil palm and rubber plantations, are stated at fair value less estimated point-of-sale costs. Gains or losses arising on initial recognition of plantations at fair value less estimated point-of-sale costs and from the change in fair value less estimated point-of-sale costs of plantations at each reporting date are included in the income statement for the period in which they arise.

The fair value of the oil palm plantations is estimated by reference to independent professional valuations using the discounted cash flows of the underlying plantations. The expected cash flows from the whole life cycle of the oil palm plantations is determined using the market price of the estimated yield of the fresh fruit bunches (FFB), net of maintenance and harvesting costs, and any costs required to bring the oil palm plantations to maturity. The estimated yield of the oil palm plantations is dependent on the age of the oil palm trees, the location, soil type and infrastructure. The market price of the FFB is largely dependent on the prevailing market prices of crude palm oil (CPO) and palm kernel oil (PKO).

Oil palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining as mature.

Rubber tress have an average life that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature. Rubber plantations are considered mature when at least 70% of the trees per block are tapable and, the circumference of the trunk of the tree is 45 centimeters or more at the height of 160 centimeters from the ground.

(f) Associated companies

An associated company is an entity, not being a subsidiary company or a joint venture, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over whose management the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

Investments in associated companies are accounted for by the equity method of accounting, less any impairment losses. The Group's investments in associated companies include goodwill (net of any accumulated impairment losses) identified on acquisition. The Group's share of its associated companies' post-acquisition profits and losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Income from associated companies is stated in the consolidated income statement as the Group's share of profits less losses of associated companies. For the share of associated companies' post acquisition movements in reserves recognized in the Group's consolidated reserves, the Group will disclose it, when applicable in the consolidated statement of changes in equity.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(g) Joint ventures

The Group recognized its interests in joint ventures using the equity method of accounting. Under the equity method of accounting, such interests are stated at cost plus post-acquisition changes in the Group's share in the net assets of the joint ventures, less any impairment losses. The income statement reflects the Group's share of the results of operations of the joint ventures from the date of incorporation of the joint ventures.

(h) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired from business combinations is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The Group's concession assets represent the fair value of concessions of right granted by governments to charge users of public services provided. The concession assets are amortized using the straight-line method over the term of the concessions. The Group's brands represent the brands for its various milk-related products. The brands are amortized using the straight-line method over their estimated useful lives.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(i) Asset retirement obligations

The net present value of legal obligations associated with the retirement of an item of property, plant and equipment that resulted from the acquisition, construction or development and the normal operation of property, plant and equipment is recognized in the period in which it is incurred.

(j) Income tax

Income tax comprises current and deferred taxes. Income tax relating to items recognized outside profit or loss is recognized either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences (with limited exceptions) while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax assets and unused tax losses (with limited exceptions). The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(k) Provisions and contingent liabilities

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the effect of discounting is material, the amount recognized for a provision is the present value, at the end of the reporting period, of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount, arising from the passage of time, is included in net borrowing costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

(l) Impairment of assets

An assessment is made at the end of each reporting period as to whether there is any indication of impairment of assets including property, plant and equipment, certain investments, goodwill and other long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and value in use.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, then the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss of all assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset. However, this is limited and will not give rise to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(m) Accounting for acquisition and disposal

(I) Results

The results of subsidiary or associated companies acquired or disposed of are accounted for from or to the effective date of acquisition or disposal.

(II) Fair value adjustments

On the acquisition of a subsidiary company or an interest in an associated company, the acquisition cost is allocated to the fair values of the identifiable assets, liabilities and contingent liabilities acquired.

(III) Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and its amount will be written down for impairment when it is considered necessary. A previously recognized impairment loss for goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognized immediately in the consolidated income statement.

In the case of associated companies and joint ventures, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated statement of financial position.

(n) Foreign currencies

(I) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Financial Statements are presented in the currency of United States dollars, which is the Company's functional and presentation currency.

(II) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement (except for those which will be refunded or billed to customers through billings as approved by governments under service concession arrangements). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(III) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement are translated at the average exchange rates; and

(iii) all resulting exchange differences are recognized in other comprehensive income. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

(IV) Statement of cash flows

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiary companies are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year are translated into United States dollars at the average exchange rates of the year.

(o) Turnover and revenue recognition

Turnover represents the amounts received and receivable from the sale of goods and the rendering of services to third parties, falling within the ordinary activities of the Group's businesses. Turnover from sales is recognized when the ownership of goods sold has been transferred to the buyer. Turnover from services is recognized when it can be measured reliably by reference to stages of completion for the rendering of the said services.

Construction revenue is recognized by reference to the stages of completion. Dividend income is recognized when the Group's right to receive payment has been established. Interest income is recognized as it accrues taking into account the principal amount outstanding and the effective interest rate.

(p) Segmental information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker who make decisions about how resources are to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process.

(q) Leases

Leases, where substantially all of the risks and rewards of ownership of assets remain with the lessor, are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are recorded in the income statement on the straight-line basis over the lease terms.

Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognized as expenses on the straight-line basis over the lease terms.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Finance lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. A finance lease gives rise to a depreciation expense for the asset as well as a borrowing cost for each period. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned by the Group.

(r) Employee benefits

(I) Pension obligations

The Group operates defined contribution and defined benefit retirement schemes.

Contributions to defined contribution schemes by the Group and employees are calculated as a percentage of the employees' basic salaries. The Group's contributions to defined contribution schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully.

Contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuations using the projected unit credit method. The costs of defined benefit schemes are charged against profit on a systematic basis so as to be spread over the expected remaining service lives of the employees affected. Actuarial gains and losses are recognized immediately in the income statement as and when they occur.

(II) *Long service payments*

Certain of the Group's employees are eligible for long service payments in the event of the termination of their employment. A provision is recognized in respect of the probable future long service payments expected to be made. The provision is the best estimate of the probable future payments that have been earned by the employees from their service to the Group at the end of the reporting period.

(III) *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value of the share options at the date at which they are granted. Fair value is determined using an option pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, based on the best available estimate.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, an expense, as a minimum, is recognized as if the terms had not been modified if the original terms of the award are met. An expense is recognized for any increase in the value of the transactions as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

(IV) *Cash-settled transactions*

The Group's associated companies grant share appreciation rights (SARs) to eligible key executives and advisors, and recognize the services received and the liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. The liability is measured, initially and at the end of each reporting period 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. Until settled, any changes in fair value at each reporting date will be recognized in the income statement.

(V) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(s) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Other costs include exchange differences on foreign currency borrowings. Exchange differences arising from foreign currency borrowings are included in borrowing costs to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

(t) Financial assets and financial liabilities

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument and derecognizes a financial asset when the Group no longer controls the contractual rights to the cash flows that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument have already expired or are passed through to an independent third party. A financial liability (or a part of a financial liability) is derecognized when the obligation is extinguished. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period. In the case of a regular way purchase or sale of financial assets, recognition or derecognition, as applicable, is done using the trading date accounting, which means the accounting based on the date that the Group commits to purchase or sell the asset.

Financial assets within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories.

A financial asset or financial liability can be designated as a financial asset or financial liability at fair value through profit or loss only upon its initial recognition. The Group may use this designation only in the case of a contract containing one or more embedded derivatives (as described below) or when doing so results in more relevant information, because either

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or

(ii) a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

For a contract containing one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

(i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

(ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits that holder to prepay the loan for approximately its amortized cost.

Financial assets or financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

After initial recognition, the following financial assets and liabilities are measured at amortized cost using the effective interest method: (i) loans and receivables; (ii) held-to-maturity investments; and (iii) financial liabilities other than liabilities measured at fair value through profit or loss, whereas available-for-sale assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Amortized cost for held-to-maturity investments is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

Investments in unquoted equity securities and derivatives linked thereon are measured at cost.

Amortization of discounts and premiums is taken directly to the consolidated income statement. Changes in the fair value of financial assets and liabilities measured at fair value of (i) all derivatives (except for those eligible for hedge accounting); (ii) other items intended to be actively traded; and (iii) any item designated as "at fair value through profit or loss" at origination, are taken directly to the income statement. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income, except for the foreign exchange fluctuations on available-for-sale debt securities and the interest component which is taken directly to net profit or loss for the period based on the asset's effective yield.

Financial assets and liabilities include financial instruments which may be a primary instrument, such as receivables, payables and equity securities, or a derivative instrument, such as financial options, futures and forwards, interest rate swaps and currency swaps.

A financial instrument is classified as a financial liability or a financial asset or an equity in accordance with the substance of the contractual arrangement. Financial instruments that contain both liability and equity elements are classified separately as financial liabilities, or equity instruments. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and the Group intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

(I) *Assets carried at amortized cost*
If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance amount. If a future write-off is later recovered, the recovery is credited to the income statement.

(II) *Assets carried at cost*
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(III) *Available-for-sale financial assets*
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

(u) Derivative instruments
The Group uses derivative financial instruments such as long-term currency swaps, foreign currency options, interest rate swaps and forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

The criteria for a derivative instrument to be classified as a hedge include: (i) the hedge transaction is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, (ii) the effectiveness of the hedge can be reliably measured, (iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and (iv) for cash flow hedges, the forecast transaction, which is the subject of the hedge, must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognized asset or liability and firm commitment; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement.

In relation to cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly as other comprehensive income in the hedging income and the ineffective portion is recognized in the consolidated income statement in borrowing costs. The gains or losses that are accumulated in other comprehensive income are transferred to the income statement in the same period in which the hedged item affects the profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

(v) Dividends

Final dividends proposed by the Directors are recognized as a liability when they have been approved by the shareholders and declared in an annual general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

(w) Related parties

A party is considered to be related to the Group if:

(I) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(II) the party is an associate;

(III) the party is a joint venture in which the entity is a venturer;

(IV) the party is a member of the key management personnel of the Group;

(V) the party is a close member of the family of any individual referred to in (I) or (IV);

(VI) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (IV) or (V); or

(VII) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(x) Non-current assets or disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

3. Significant Accounting Judgments and Estimates

The preparation of the Group's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(A) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the Financial Statements:

(a) Classification of financial assets and financial liabilities

The Group determines the classification of certain of assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS 39. Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies set out in Note 2(D)(t).

(b) Service concession arrangements

In applying HK(IFRIC)-Int 12 for the service concession arrangements of Maynilad Water Services, Inc. (Maynilad) and Manila North Tollways Corporation (MNTC), the Group has made judgments that these arrangements qualify for the application of the intangible asset model. Details of the Group's accounting policy in respect of intangible assets (other than goodwill) are set out in Note 2(D)(h).

(B) Estimation Uncertainty

The key 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 within the next financial year are discussed below.

(a) Estimating useful lives and residual values of property, plant and equipment

The Group estimates the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property, plant and equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives and residual values of its property, plant and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in 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 and residual values of the Group's property, plant and equipment would increase its recorded depreciation expenses and decrease its non-current assets.

(b) Estimating useful lives of brands

The Group estimates the useful lives of the brands for its various milk-related products. The estimated useful lives of the brands are reviewed annually and are updated if expectations differ from previous estimates due to changes in market situations or other limits. It is possible, however, that future results of operations could be materially affected by changes in those 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 the Group's brands would increase its recorded amortization expenses and decrease its other intangible assets.

(c) Assets impairment

Hong Kong GAAP requires that an impairment review should be performed when certain impairment indication is present. In case of goodwill, such assets are subject to yearly impairment test and whenever there is an indication that such assets may be impaired.

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the assets and liabilities purchased, including intangible assets and contingent liabilities. The Group's business acquisitions have resulted in goodwill, which is subject to a periodic impairment test.

Determining the fair value of property, plant and equipment, plantations, and intangible assets (other than goodwill) at the date of acquisition of business, which requires the determination of future cash flows expected to be generated from the continued use (i.e., value in use) and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that property, plant and equipment associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on its financial condition and results of operations.

The preparation of estimated future cash flows involves significant estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in its assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under Hong Kong GAAP.

(d) Deferred tax assets

The Group reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its recognized deferred tax assets to be utilized.

(e) Financial assets and liabilities

Hong Kong GAAP requires that the Group carries certain of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect directly the Group's consolidated profit or loss and equity.

(f) Estimating allowances for accounts receivable

The Group estimates the allowance for accounts receivable based on two methods. The amounts calculated using each of these methods are combined to determine the total amount it provides. Firstly, the Group evaluates specific accounts where it has information that certain customers are unable to meet their financial obligations. In these cases, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific provisions for customers against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts estimated. Secondly, a provision is established as a certain percentage of receivables. This percentage is based on a collective assessment of historical collection, write-off, experience and changes in its customer payment terms.

The amounts and timing of recorded expenses for any period would differ if the Group utilized different estimates. An increase in the Group's allowance for accounts receivable would increase its recorded operating expenses and decrease its assets.

(g) Estimating allowances for inventories

The Group estimates the allowance for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e., whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

(h) Pension and other retirement benefits

The determination of the Group's obligation and cost for defined benefits is performed by independent actuaries engaged by the Group and dependent on the selection of certain assumptions used by them in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets, rates of salary and pension increase and average remaining working lives of employees. In accordance with Hong Kong GAAP, actual results that differ from the Group's assumptions are recognized immediately in the income statement as and when they occur. While the Group believes that the actuaries' assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations.

(i) Measurement of fair value of plantations

Hong Kong GAAP requires that the Group carries its plantations at fair value less estimated point-of-sale costs, which requires extensive use of accounting estimates. The determination of such fair value less estimated point-of-sale costs is performed by independent valuers engaged by the Group. Significant components of fair value measurement were determined using assumptions including the average life of plantations, yield per hectare, plantation area and discount rates. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of these plantations would affect directly the Group's profit or loss and equity.

(j) Equity-settled share option expense

Hong Kong GAAP requires that the Group measures its share options at fair value at the date at which they are granted, which requires extensive use of accounting estimates. The determination of such fair value is performed by an independent valuer engaged by the Group. Significant components of fair value measurement were determined using assumptions including expected volatility and dividend yield and the average risk-free interest rate. The amount of fair value determined at the date of which the options are granted would differ if the Group utilized different assumptions. Any changes in fair value of the share options determined at the date of which they are granted would affect directly the Group's profit or loss in subsequent periods when these fair values are recognized as expenses over the share options' vesting period.

4. Turnover and Segmental Information

US$ millions	2009	2008
Turnover		
Sale of goods	**3,511.8**	3,896.9
Rendering of services	**413.8**	208.4
Total	**3,925.6**	4,105.3

Segmental Information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available to him.

The Board of Directors considers the business from both product or service and geographical perspectives. From the product or service perspective, the Group business interests are divided into four main segments, which are telecommunications, infrastructure, consumer food products and natural resources. Geographically, the Board of Directors considers the businesses of the Group are operating in the Philippines and Indonesia. Details of the Group's principal investments are provided on the inside back cover.

The Board of Directors assesses the performance of the operating segments based on a measure of recurring profit. This measurement basis measures the profit attributable to owners of the parent excluding the effects of foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items. Non-recurring items represent certain items, through occurrence or size, which are not considered as usual operating items.

The revenue, results and other information for the years ended 31 December 2009 and 2008, and total assets and total liabilities at 31 December 2009 and 2008 regarding the Group's reportable businesses are as follows.

By Principal Business Activity – 2009

For the year ended/at 31 December US$ millions	The Philippines Telecom–munications	Infrastructure	Natural Resources	Indonesia Consumer Food Products	Head Office	2009 Total
Revenue						
Turnover	–	336.9	–	3,588.7	–	**3,925.6**
Results						
Recurring profit	205.3	33.0	7.7	89.2	(48.6)	**286.6**
Assets and Liabilities						
Associated companies and joint ventures	1,050.8	568.8	441.2	3.7	3.5	**2,068.0**
Other assets	–	2,214.1	–	4,882.1	233.1	**7,329.3**
Total assets	1,050.8	2,782.9	441.2	4,885.8	236.6	**9,397.3**
Borrowings	–	926.1	–	1,837.7	921.5	**3,685.3**
Other liabilities	–	571.4	–	1,008.7	92.8	**1,672.9**
Total liabilities	–	1,497.5	–	2,846.4	1,014.3	**5,358.2**
Other Information						
Depreciation and amortization	–	68.8	–	108.7	0.4	**177.9**
Interest income	–	10.5	–	15.6	1.4	**27.5**
Interest expenses	–	(83.9)	–	(149.0)	(24.9)	**(257.8)**
Share of profits less losses of associated companies and joint ventures	210.9	9.1	12.5	0.3	0.6	**233.4**
Taxation	–	1.0	–	(132.5)	(12.2)	**(143.7)**
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	162.2	–	363.4	2.3	**527.9**

By Principal Business Activity – 2008

For the year ended/at 31 December US$ millions	The Philippines Telecom-munications	 Infrastructure	 Natural Resources	Indonesia Consumer Food Products	 Head Office	 2008 Total
Revenue						
Turnover	–	112.8	–	3,992.5	–	4,105.3
Results						
Recurring profit	211.0	7.4	(1.6)	87.6	(65.2)	239.2
Assets and Liabilities						
Associated companies and joint ventures	1,040.5	48.0	95.1	15.4	3.3	1,202.3
Other assets	–	1,940.6	–	4,039.9	16.2	5,996.7
Total assets	1,040.5	1,988.6	95.1	4,055.3	19.5	7,199.0
Borrowings	–	677.7	–	1,696.6	784.4	3,158.7
Other liabilities	–	745.0	–	862.7	57.4	1,665.1
Total liabilities	–	1,422.7	–	2,559.3	841.8	4,823.8
Other Information						
Depreciation and amortization	–	(29.4)	–	(76.6)	(0.5)	(106.5)
Interest income	–	9.9	–	17.4	7.5	34.8
Interest expenses	–	(27.5)	–	(120.6)	(37.2)	(185.3)
Share of profits less losses of associated companies and joint ventures	194.8	(1.2)	(1.2)	0.5	–	192.9
Taxation	–	1.3	–	(53.3)	(9.4)	(61.4)
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	1,443.1	–	827.4	–	2,270.5

A reconciliation between profit before taxation as shown in the consolidated income statement and recurring profit is as follows.

US$ millions	**2009**	2008
Profit before taxation		
– Continuing operations	**804.0**	397.4
– A discontinued operation	**0.1**	1.3
Exclusion of:		
– Foreign exchange and derivative (gains)/losses (Note 9)	**(75.2)**	100.9
– (Gain)/loss on changes in fair value of plantations (Note 6)	**(60.2)**	97.7
– Non-recurring items	**(49.8)**	(23.3)
Deduction of attributable taxation and minority interest	**(332.3)**	(334.8)
Recurring profit	**286.6**	239.2

5. Net Borrowing Costs

US$ millions	2009	2008
Bank loans and other loans		
– Wholly repayable within five years	**191.5**	163.6
– Not wholly repayable within five years	**67.0**	21.7
Less: Borrowing costs capitalized in other intangible assets	**(0.7)**	–
Total Borrowing Costs	**257.8**	185.3
Less: Interest income	**(27.5)**	(34.8)
Net Borrowing Costs	**230.3**	150.5

The capitalization rate of borrowings costs for 2009 was 3.6% (2008: Nil).

6. Profit Before Taxation

US$ millions	Notes	2009	2008
Profit Before Taxation is Stated after (Charging)/Crediting(i)			
Cost of inventories sold		**(1,959.1)**	(2,470.1)
Employees' remuneration	35(A)	**(376.5)**	(347.3)
Cost of services rendered		**(205.4)**	(96.7)
Depreciation	12	**(94.2)**	(79.2)
Amortization of other intangible assets	17	**(83.7)**	(27.3)
Operating lease rentals			
– Land and buildings		**(13.7)**	(8.6)
– Hire of plant and equipment		**(4.4)**	(3.6)
(Loss)/gain on sale of property, plant and equipment		**(9.6)**	0.6
Recognition of prepaid land premiums	19	**(8.1)**	(7.1)
Impairment losses			
– Accounts receivable(ii)	18(C)	**(7.3)**	(7.0)
– Property, plant and equipment	12	**(5.1)**	–
– Associated companies and joint ventures(iii)		**–**	(36.4)
– Goodwill(iii)	16	**–**	(0.5)
Loss on change in fair value of asset held for sale		**(2.8)**	–
Auditors' remuneration			
– Audit services		**(2.1)**	(2.1)
– Other services		**(0.3)**	(0.6)
Gain on dilution of interest in subsidiary companies		**84.7**	18.9
Foreign exchange and derivative gains/(losses), net	9	**72.6**	(83.2)
Gain/(loss) on changes in fair value of plantations	13	**60.2**	(97.7)
Realized gain on sale of available-for-sale assets		**3.6**	0.1
Gain on divestment and dilution of interest in an associated company		**1.2**	9.8
Dividend income from available-for-sale assets		**0.1**	0.5

(i) Includes amounts (charged)/credited in respect of a discontinued operation
(ii) Included in distribution costs
(iii) Included in other operating income/(expenses), net

7. Taxation

No Hong Kong profits tax (2008: Nil) has been provided as the Group had no estimated assessable profits (2008: Nil) in Hong Kong for the year. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

US$ millions	2009	2008
Subsidiary Companies – Overseas		
Current taxation (Note 28)	**144.7**	121.6
Deferred taxation (Note 21)	**(1.0)**	(60.2)
Total	**143.7**	61.4

Included within the share of profits less losses of associated companies and joint ventures is taxation of US$84.3 million (2008: US$93.7 million) and which is analyzed as follows.

US$ millions	2009	2008
Associated Companies and Joint Ventures – Overseas		
Current taxation	**78.3**	94.9
Deferred taxation	**6.0**	(1.2)
Total	**84.3**	93.7

A reconciliation between profit before taxation multiplied by the applicable tax rates and the taxation amount as shown in the consolidated income statement is as follows.

	2009		2008	
US$ millions		%		%
Profit Before Taxation	**804.0**		397.4	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**245.0**	**30.5**	140.6	35.4
Tax effect of:				
– Non-deductible expenses	**0.9**	**0.1**	6.0	1.5
– Income not subject to tax	**(24.9)**	**(3.1)**	(32.5)	(8.2)
– Share of profits less losses of associated companies and joint ventures	**(32.3)**	**(4.0)**	(32.8)	(8.3)
– Others	**(45.0)**	**(5.6)**	(19.9)	(4.9)
Taxation	**143.7**	**17.9**	61.4	15.5

8. A Discontinued Operation

Following a strategic review of MPIC's businesses which focuses on core infrastructure, MPIC's directors decided in late 2008 to divest its interest in the property business, Landco Pacific Corporation (Landco), which was operated by MPIC. As at 31 December 2008, the Group's investment in Landco was classified as a disposal group held for sale. In June 2009, MPIC disposed of 17.0% interest in Landco for Pesos 203 million (US$4.2 million), thereby reducing its interest in Landco from 51.0% to 34.0%. Following this transaction, the Group's remaining 34.0% interest in Landco was classified under assets held for sale.

9. Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent includes US$23.7 million of net foreign exchange and derivative gains (2008: losses of US$46.9 million), which represent the foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives, US$10.0 million of gain (2008: loss of US$16.0 million) on changes in fair value of plantations and US$81.3 million (2008: US$24.5 million) of net non-recurring gains.

Analysis of Foreign Exchange and Derivative Gains/(Losses)

US$ millions	2009	2008
Foreign exchange and derivative gains/(losses)		
– Subsidiary companies (Note 6)	**72.6**	(83.2)
– Associated companies and joint ventures	**2.6**	(17.7)
Subtotal (Note 4)	**75.2**	(100.9)
Attributable to taxation and minority interest	**(51.5)**	54.0
Total	**23.7**	(46.9)

The non-recurring gains of US$81.3 million for 2009 mainly represent gains on dilution of the Group's interest in MPIC. The non-recurring gains of US$24.5 million for 2008 mainly include (i) a gain on dilution of the Group's interest in Indofood of US$18.9 million (ii) a gain on divestment and dilution of the Group's interest in PLDT of US$9.8 million (iii) MPIC's gains arising from increase in interests in Maynilad and MDI totaling US$13.4 million (iv) a gain of US$10.5 million from a reduction in Indofood's deferred tax liabilities due to reduction in future tax rates and (v) MPIC's gain on sale of assets of US$3.9 million, partly offset by a Group's impairment provision of US$36.4 million in respect of its investment in Philex.

Included within the profit attributable to owners of the parent for the year ended 31 December 2009 is a profit of US$5.1 million (2008: US$51.2 million) attributable to the Company.

10. Ordinary Share Dividends

	U.S. cents per ordinary share		US$ millions	
	2009	2008	2009	2008
Interim	**0.51**	0.38	**16.5**	12.3
Proposed final	**1.03**	0.77	**39.6**	24.7
Total	**1.54**	1.15	**56.1**	37.0

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. Earnings Per Share Attributable to Owners of the Parent

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent of US$401.6 million (2008: US$200.8 million), and the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year.

The calculation of diluted earnings per share is based on: (i) the profit for the year attributable to owners of the parent of US$401.6 million (2008: US$200.8 million) reduced by the dilutive impact of US$6.8 million (2008: US$0.3 million) in respect of the exercise of share options issued by its associated companies and, for 2008 only, US$6.1 million in respect of the convertible notes issued by its previous joint venture DMWC (which has become a subsidiary company since July 2008) and (ii) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year (as used in the basic earnings per share calculation) and the weighted average number of ordinary shares of 50.6 million (2008: 57.0 million (Restated)) assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the year.

12. Property, Plant and Equipment

US$ millions	Land and buildings	Machinery, equipment and vessels	**Consolidated**
Cost			
At 1 January 2009	289.8	976.5	**1,266.3**
Exchange translation	52.2	174.3	**226.5**
Additions	50.9	170.9	**221.8**
Disposals	(1.7)	(32.9)	**(34.6)**
At 31 December 2009	391.2	1,288.8	**1,680.0**
Accumulated Depreciation and Impairment			
At 1 January 2009	84.7	373.2	**457.9**
Exchange translation	14.9	68.3	**83.2**
Charge for the year (Note 6)	17.4	76.8	**94.2**
Impairment (Note 6)	–	5.1	**5.1**
Disposals	(0.9)	(18.5)	**(19.4)**
At 31 December 2009	116.1	504.9	**621.0**
Net Book Amount at 31 December 2009	275.1	783.9	**1,059.0**

US$ millions	Land and buildings	Machinery, equipment and vessels	Consolidated
Cost			
At 1 January 2008	316.2	934.2	1,250.4
Exchange translation	(46.3)	(152.4)	(198.7)
Additions	9.0	151.0	160.0
Acquisition of subsidiary companies	30.2	62.5	92.7
Disposals	(14.1)	(16.7)	(30.8)
Reclassification	(5.2)	(2.1)	(7.3)
At 31 December 2008	289.8	976.5	1,266.3
Accumulated Depreciation and Impairment			
At 1 January 2008	86.5	379.8	466.3
Exchange translation	(13.3)	(59.2)	(72.5)
Charge for the year (Note 6)	14.7	64.5	79.2
Disposals	(1.9)	(8.7)	(10.6)
Reclassification	(1.3)	(3.2)	(4.5)
At 31 December 2008	84.7	373.2	457.9
Net Book Amount at 31 December 2008	205.1	603.3	808.4

(A) The principal annual rates of depreciation:

Freehold land	Nil
Freehold buildings	2.5% to 20.0%
Leasehold buildings	Lesser of period of lease, and 2.5% to 20.0%
Machinery, equipment and vessels	2.5% to 50.0%

(B) The land and buildings are freehold and leasehold properties held outside Hong Kong.

(C) Property, plant and equipment with a net book amount of US$53.4 million (2008: US$213.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

13. Plantations

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**744.5**	881.5
Exchange translation	**135.8**	(121.6)
Additions	**68.7**	76.7
Acquisition of subsidiary companies	**–**	5.6
Gain/(Loss) on changes in fair value less estimated point-of-sale costs, net (Note 6)	**60.2**	(97.7)
At 31 December	**1,009.2**	744.5

Physical measurement of oil palm, rubber and other plantations at 31 December is as follows.

	Consolidated	
Hectares	**2009**	2008
Oil palm		
– Mature plantations	**132,560**	124,169
– Immature plantations	**61,053**	58,944
Rubber		
– Mature plantations	**17,263**	17,873
– Immature plantations	**4,475**	4,537
Sugar, cocoa, tea and others		
– Mature plantations	**11,643**	7,044
– Immature plantations	**727**	761
Total	**227,721**	213,328

(A) The Group's plantations mainly represent palm trees and rubber trees owned by Indofood. The palm trees are planted for the production of FFB, which are used in the production of CPO and PKO. The rubber trees are planted for the production of cup lump. The fair values of oil palm plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the oil palm plantations are determined using the forecast market price of FFB which is largely dependent on the projected selling prices of CPO and PKO in the market. The fair values of rubber plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the rubber plantations are determined using the forecast market price of cup lump which is based on the projected selling price of Rubber Smoke Sheet 1 (RSS1). Significant assumptions made in determining the fair value of the plantations are:

(a) No new planting/re-planting activities are assumed.

(b) The palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining years as mature. The rubber trees have an average life of that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature.

(c) The yield per hectare of palm trees is based on guidelines from the Indonesian Oil Palm Research Institute which varies with the average age of palm trees. The yield per hectare of rubber trees is based on estimation made by Indofood's agronomists and reviewed by an independent valuer.

(d) The discount rates of 19.2% (2008: 19.3%) and 18.6% (2008: 18.2%), which represent the respective asset specific rates for Indofood's palm trees and rubber trees plantation operations, were applied in the discounted cash flow calculations.

(e) The projected selling price of CPO over the projection period is based on the World Bank forecasts for 2009 valuation (2008: consensus of reputable independent forecasting service firms for the short-term period and on the studies of historical actual CPO prices for the last 20 years and World Bank forecasts for the remaining projection period). The projected selling price of RSS1 over the projected period is based on World Bank forecasts and actual historical selling prices of the Group.

(B) During 2009, Indofood's palm trees produced 2.6 million tonnes (2008: 2.5 million tonnes) of FFB and rubber trees produced 28.3 thousand tonnes (2008: 28.1 thousand tonnes) of cup lump. The fair values of FFB and rubber harvested during 2009, determined at the point of harvest, amounted to US$253.5 million (2008: US$342.4 million) and US$40.1 million (2008: US$54.4 million), respectively.

(C) Plantations with a net book amount of US$59.4 million (2008: US$421.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

14. Subsidiary Companies

	Company	
US$ millions	**2009**	2008
Unlisted shares at cost	**1,128.3**	1,176.6
Less provision for impairment loss	**(132.1)**	(180.4)
Total	**996.2**	996.2

The Company's listed subsidiary companies are held through intermediate holding companies.

(A) The amounts due from subsidiary companies are unsecured, bear interest at a range of 0% to 3.3% per annum (2008: 0% to 7.3% per annum) and repayable within one year. The carrying value of the Company's amounts due from subsidiary companies approximates to their fair value.

(B) The amounts due to subsidiary companies are unsecured, bear interest at a range of 0% to 2.9% per annum (2008: 0% to 6.8% per annum) and repayable within one year. The carrying value of the Company's amounts due to subsidiary companies approximates to their fair value.

(C) The loans from subsidiary companies are unsecured, bear interest at a range of 1.4% to 2.9% per annum (2008: 2.9% to 7.1% per annum) and not repayable within one year. The carrying value of the Company's loans from subsidiary companies approximates to their fair value.

(D) Details of the principal subsidiary companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on the inside back cover.

15. Associated Companies and Joint Ventures

US$ millions	Associated Companies 2009	2008	Joint ventures 2009	2008	**Consolidated** 2009	2008
Shares, at cost						
– Listed	**2,791.9**	1,983.0	**–**	–	**2,791.9**	1,983.0
– Unlisted	**91.7**	102.5	**10.5**	2.7	**102.2**	105.2
Share of post-acquisition reserves (Note 31)	**(824.5)**	(884.8)	**(1.6)**	(1.1)	**(826.1)**	(885.9)
Total	**2,059.1**	1,200.7	**8.9**	1.6	**2,068.0**	1,202.3

(A) At 31 December 2009, both the listed and unlisted investments were located outside Hong Kong.

(B) At 31 December 2009, the market valuation of listed investments was US$4,220.1 million (2008: US$2,281.6 million) based on quoted market prices and the net dividends received during 2009 amounted to US$210.6 million (2008: US$211.9 million).

(C) Details of the Group's principal associated companies, PLDT and Philex, which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on the inside back cover.

(D) PLDT was incorporated under the laws of the Philippines on 28 November 1928 to provide telephone services in the Philippines. PLDT's charter was initially limited to a period of 50 years but has since been extended twice for 25 years each, the last extension being for an additional 25-year period ending in 2028. Under its amended charter, which became effective on 24 August 1991, PLDT is authorized to provide virtually every type of telecommunication service, both within the Philippines and between the Philippines and other countries. PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

(E) Philex was incorporated under the laws of the Philippines in 1995 to engage in mining activities. Philex is primarily engaged in large-scale exploration, development and utilization of mineral resources. Philex has operated for the past 51 years at the deposit at Padcal (Tuba Benguet Province, Island of Luzons) and owns the deposit at Boyongan and Bayugo (Surogao del Norte, the Northern of Mindanao) (the Silangan Project), which is currently under the development stage, for producing gold, copper and silver as its principal products.

(F) Meralco was incorporated under the laws of the Philippines in 1903 and granted a franchise to provide electric power distribution services in the Philippines. In June 2003, Meralco was granted a new 25-year franchise to construct, operate, and maintain an electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in Batangas, Laguna, Pampanga, and Quezon. Meralco is subject to the rate-making regulations and regulatory policies of the Energy Regulatory Commission.

In September 2009, MPIC and Philipino Telephone Corporation (Piltel) (an indirect subsidiary company of PLDT), which owned approximately 14.5% and 20% equity interests in Meralco, entered into an agreement (Meralco Shareholders' Agreement) to formalize their arrangement to "vote as one" with regard to their combined holdings of shares of Meralco. The salient provisions of the Meralco Shareholders' Agreement are that (a) MPIC and Piltel will pool their votes in the general meetings of the shareholders of Meralco for the election of nominees to the board of Meralco, and MPIC will always have at least one nominee director (as entitled to and in proportionate to its shareholding in Meralco), (b) MPIC and Piltel undertake to always consult with each other and arrive at a common position (hence, casting a common vote) on all matters in respect of their capacity as shareholders of Meralco and (c) MPIC and Piltel will procure their respective nominee directors to always vote as a bloc for all matters in every board meeting of Meralco (the board Meralco has a total of 11 board members, of which MPIC and Piltel are represented by 1 member and 2 members, respectively). Based on the provisions in the Meralco Shareholders' Agreement, notwithstanding that MPIC has less than a 20% equity interest in Meralco, MPIC accounted for Meralco as an associate in view of the significant influence MPIC has in Meralco.

(G) Additional financial information in respect of the Group's principal associated companies, PLDT, Philex and Meralco, as prepared under Hong Kong GAAP, is set out below.

	PLDT		Philex[i]		Meralco[ii]
US$ millions	**2009**	2008	**2009**	2008	**2009**
Operating Results					
Turnover	**3,046.7**	3,197.4	**204.2**	2.1	**840.1**
Profit/(loss) before taxation	**1,123.1**	1,164.2	**60.8**	(3.6)	**28.0**
Profit/(loss) after taxation	**823.1**	752.8	**48.1**	(4.1)	**12.2**
Profit for the Year/Period	**816.6**	737.9	**50.1**	(2.7)	**10.5**
Net Assets					
Current assets	**1,392.7**	1,389.6	**107.1**	260.6	**981.4**
Non-current assets	**4,805.2**	3,931.7	**534.9**	360.2	**3,359.3**
Total Assets	**6,197.9**	5,321.3	**642.0**	620.8	**4,340.7**
Current liabilities	**(1,602.1)**	(1,377.4)	**(25.0)**	(123.7)	**(925.3)**
Non-current liabilities and provisions	**(2,468.0)**	(1,805.6)	**(124.6)**	(100.7)	**(1,787.2)**
Total Liabilities	**(4,070.1)**	(3,183.0)	**(149.6)**	(224.4)	**(2,712.5)**
Minority interest	**(11.9)**	(30.2)	**(15.2)**	(31.8)	**(81.7)**
Net Assets at 31 December	**2,115.9**	2,108.1	**477.2**	364.6	**1,546.5**

(i) Information in respect of Philex only relates to 28 November 2008 (date becoming an associated company of the Group) and after.
(ii) Information in respect of Meralco only relates to 6 October 2009 (date becoming an associated company of the Group) and after.

(H) The Group has discontinued the recognition of its share of losses of Prime Media Holdings, Inc., an associated company, because the share of losses of this associated company fully eroded the Group's investment. The amounts of the Group's unrecognized share of losses of this associated company for the current year and cumulatively were US$0.1 million (2008: US$0.6 million) and US$8.8 million (2008: US$8.7 million), respectively.

16. Goodwill

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**675.6**	347.2
Adjustment for acquisition in the prior year	**(0.7)**	–
Exchange translation	**82.0**	(52.3)
Increased investments in subsidiary companies	**18.3**	27.1
Acquisition of subsidiary companies	**–**	354.1
Impairment (Note 6)	**–**	(0.5)
Net Book Amount at 31 December	**775.2**	675.6

(A) Goodwill is allocated to the Group's cash-generating units identified according to the business and geographical segments. The goodwill amounts at 31 December 2009 and 31 December 2008 relate to (a) Indofood's businesses (principally plantations and dairy) which contribute to the Group's consumer food products business segment located in Indonesia and (b) MPIC's businesses (water distribution and toll roads) which contribute to the Group's infrastructure business segment located in the Philippines.

(B) In assessing the impairment for goodwill, the Group compares the carrying amount of the underlying assets against their recoverable amounts (the higher of the assets' fair value less costs to sell and their value in use). The recoverable amounts of Indofood's and MPIC's businesses have been determined based on fair value less costs to sell or value in use calculations using cash flow projections covering periods from 4 years up to 10 years (for the plantation companies) for Indofood's businesses, 28 years for MPIC's water distribution and toll roads businesses. The discount rates applied to cash flow projections range from 12.9% to 18.6% (2008: 15.7% to 20.6%) for Indofood's businesses, 14.1% (2008: 9.2%) for MPIC's water distribution business and 12.5% for MPIC's toll roads business, which reflect specific risks relating to the relevant businesses.

In the assessment of the recoverable amount of Indofood's plantation businesses, the projected selling price of CPO over the projection period is based on the World Bank forecasts for 2009 valuation (2008: consensus of reputable independent forecasting service firms for the short-term period and on the studies of the historical actual CPO prices for the last 20 years and World Bank forecasts for the remaining projection period), while the projected selling price of RSS1 over the projection period is based on World Bank forecasts and actual historical selling prices of the Group. The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 5.0%, which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of Indofood's dairy businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period. The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 5.0%, which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of MPIC's water distribution and toll roads businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period.

Changes to the above assumptions used by the management to determine the recoverable amounts can have significant impact on the results of the assessment. Management is of the opinion that no reasonably possible change in any of the key assumptions stated above would cause the carrying amount of the goodwill for each of the cash-generating units to materially exceed the recoverable amounts.

(C) In November 2008, MPIC acquired a 99.8% interest in First Philippine Infrastructure, Inc. (FPII) at a total consideration of approximately US$251.7 million. FPII was subsequently renamed as Metro Pacific Tollways Corporation (MPTC). MPTC owns an interest of approximately 67.1% in Manila North Tollways Corporation (MNTC). MNTC was granted a concession in June 1998 to finance, design, construct, operate and maintain the toll roads, toll facilities and other facilities generating toll-related and non-toll-related income in respect of the Manila North Expressway (also known as the North Luzon Expressway (NLEX)) in the Philippines. Details of MNTC's business are set out in Note 17(B). In 2008, the Group recorded the assets, liabilities and contingent liabilities of MPTC at initially assessed fair values and recognized provisional goodwill of US$118.2 million, representing the difference between MPIC's acquisition cost and the initially assessed fair value of the assets, liabilities and contingent liabilities of MPTC acquired. In 2009, MPIC finalized its assessment of the fair values of the assets, liabilities and contingent liabilities of MPTC acquired and concluded that there was no material change in the final amount of goodwill, which being only US$0.7 million less as compared to the provisional goodwill amount of US$118.2 million initially recognized in 2008.

17. Other Intangible Assets

US$ millions	Concession assets – Water distribution	Concession assets – Toll roads	Brands	**Consolidated**
Cost				
At 1 January 2009	862.0	356.1	346.0	**1,564.1**
Exchange translation	32.1	10.3	57.1	**99.5**
Additions	173.8	6.7	–	**180.5**
At 31 December 2009	1,067.9	373.1	403.1	**1,844.1**
Accumulated Amortization				
At 1 January 2009	24.1	1.5	–	**25.6**
Exchange translation	4.0	0.5	1.9	**6.4**
Charge for the year (Note 6)	52.8	12.1	18.8	**83.7**
At 31 December 2009	80.9	14.1	20.7	**115.7**
Net Book Amount at 31 December 2009	987.0	359.0	382.4	**1,728.4**

US$ millions	Concession assets – Water distribution	Concession assets – Toll roads	Brands	Consolidated
Cost				
At 1 January 2008	–	–	–	–
Acquisition of subsidiary companies	829.5	369.5	346.0	1,545.0
Exchange translation	(30.9)	(13.8)	–	(44.7)
Additions	63.4	0.4	–	63.8
At 31 December 2008	862.0	356.1	346.0	1,564.1
Accumulated Amortization				
At 1 January 2008	–	–	–	–
Charge for the year (Note 6)	25.7	1.6	–	27.3
Exchange translation	(1.6)	(0.1)	–	(1.7)
At 31 December 2008	24.1	1.5	–	25.6
Net Book Amount at 31 December 2008	837.9	354.6	346.0	1,538.5

(A) Concession assets – Water distribution represent the concession held by Maynilad for its exclusive right granted by Metropolitan Waterworks and Sewerage System (MWSS) on behalf of the Philippine government to provide water and sewerage services and charge users for the services provided in the area of West Metro Manila during its concession period.

In February 1997, Maynilad entered into a concession agreement with MWSS, with respect to the MWSS West Service Area. Under the concession agreement, MWSS grants Maynilad, the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to provide water and sewerage services in the West Service Area for 25 years ending in 2022. In September 2009, MWSS approved an extension of its concession agreement with Maynilad for another 15 years to 2037. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the expiration date at which time, all rights, titles and interests in such assets will automatically vest to MWSS. Under the concession agreement, Maynilad is entitled to (a) an annual standard rate adjustment to compensate for increases in the consumer price index subject to a rate adjustment limit; (b) an extraordinary price adjustment to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the concession agreement; and (c) a rate rebasing mechanism which allows rates to be adjusted every five years to enable Maynilad to efficiently and prudently recover expenditures incurred, Philippine business taxes and payments corresponding to debt service on concession fees and Maynilad loans incurred to finance such expenditures.

(B) Concession assets – Toll roads represent the concession held by Manila North Tollways Corporation (MNTC) for its right, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income in respect of the NLEX during its concession period.

In August 1995, First Philippine Infrastructure Development Corporation (FPIDC), the parent company of MNTC, entered into a joint venture agreement with Philippine National Construction Corporation (PNCC), in which PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLEX and its extensions, stretches, linkages and diversions in favour of MNTC, including the design, funding, construction, rehabilitation, refurbishing and modernization and selection and installation of an appropriate toll collection system therein during the concession period subject to prior approval by the President of the Philippines. In April 1998, the Philippine government, acting by and through the Toll Regulatory Board as the grantor, PNCC as the franchisee and MNTC as the concessionaire executed a Supplemental Toll Operation Agreement (STOA) whereby the Philippine government recognized and accepted the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise in favor of MNTC as approved by the President of the Philippines and granted MNTC concession rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the NLEX project roads as toll roads commencing upon the date the STOA comes into effect until 31 December 2030 or 30 years after the issuance of the Toll Operation Permit for the last completed phase, whichever is earlier. In October 2008, the concession agreement was extended for another seven years to 2037. Pursuant to the STOA, MNTC is required to pay franchise fees to PNCC and to pay for the government's project overhead expenses based on certain percentages of construction costs and maintenance works on the project roads. Upon expiry of the concession period, MNTC shall handover the project roads to the Philippine government without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

(C) Brands represent the brands held by PT Indolakto (Indolakto) for its various milk-related products, which includes Indomilk, Cap Enaak, Tiga Sapi, Indoeskrim, Nice and Orchid.

(D) All of the Group's concession assets and brands were acquired by the Group as part of a business combination.

(E) The useful lives for amortization:

Concession assets – Water distribution	Remaining concession life of 30 years since acquisition
Concession assets – Toll roads	Remaining concession life of 29 years since acquisition
Brands	20 years

(F) Other intangible assets with a net book amount of US$789.1 million (2008: US$544.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

18. Accounts Receivable, Other Receivables and Prepayments

	Consolidated	
US$ millions	**2009**	2008
Accounts receivables	**238.4**	258.1
Other receivables	**348.5**	120.6
Prepayments	**58.8**	59.8
Total	**645.7**	438.5
Presented as:		
Non-current Portion	**6.6**	3.0
Current Portion	**639.1**	435.5
Total	**645.7**	438.5

(A) The carrying amount of the current portion of accounts receivable, other receivables and prepayments approximates to their fair value. The fair value of the non-current portion of accounts receivable, other receivables and prepayments is US$6.8 million (2008: US$3.4 million) which is determined based on cash flows discounted using a weighted average prevailing interest rate of 9.0% (2008: 10.5%). The weighted average effective interest rate of the non-current portion of accounts and other receivables is 8.5% (2008: 11.7%).

(B) An ageing profile of accounts receivables is analyzed as below.

	Consolidated	
US$ millions	**2009**	2008
0 to 30 days	**190.9**	204.3
31 to 60 days	**10.5**	12.0
61 to 90 days	**11.4**	6.7
Over 90 days	**25.6**	35.1
Total	**238.4**	258.1

	Consolidated	
US$ millions	**2009**	2008
Neither past due nor impaired	**195.9**	234.5
Past due but not impaired		
– 0 to 30 days past due	**8.9**	9.4
– 31 to 60 days past due	**22.0**	6.2
– 61 to 90 days past due	**11.6**	7.1
– Over 90 days past due	**–**	0.9
Total	**238.4**	258.1

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(C) At 31 December 2009, accounts receivables of US$24.9 million (2008: US$24.8 million) were collectively impaired and fully provided for. Movements in the provision for impairment of accounts receivables were as follows.

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**(24.8)**	(4.1)
Exchange translation	**7.2**	0.6
Acquisition of subsidiary companies	**–**	(14.3)
Charge for the year (Note 6)	**(7.3)**	(7.0)
At 31 December	**(24.9)**	(24.8)

(D) As the Group's accounts receivables relate to a large number of diversified customers, there is no concentration of credit risk.

(E) Indofood allows export customers 60 days of credit and local customers an average of 30 days of credit. MPIC (a) allows 60 days of credit for its water service customers and (b) collects toll fees through its associated company, Tollways Management Corporation (TMC), by cash, by prepaid and reloadable electronic toll collection devices and by credit card payment.

(F) None (2008: US$36.2 million) of the accounts receivable was pledged as security for the Group's banking facilities (Note 27(D)).

(G) Other receivables includes a notes receivable of Pesos 11.2 billion (US$242.5 million) (2008: Nil) from First Philippine Utilities Corporation, a wholly-owned subsidiary company of First Philippine Holdings Corporation. The note bears interest of 5.0% per annum and is repayable in June 2010.

19. Prepaid Land Premiums

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**158.2**	151.4
Exchange translation	**39.9**	(15.8)
Recognition during the year (Note 6)	**(8.1)**	(7.1)
Acquisition of subsidiary companies	**–**	29.7
Total Prepaid Land Premiums	**190.0**	158.2
Current portion included in accounts receivable, other receivables and prepayments	**(7.0)**	(5.0)
At 31 December	**183.0**	153.2

	Consolidated	
US$ millions	**2009**	2008
Overseas, Held On:		
Leases of between 10 and 50 years	**180.8**	151.0
Leases of less than 10 years	**9.2**	7.2
Total	**190.0**	158.2

Prepaid land premiums with a net book amount of US$5.7 million (2008: US$19.3 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

20. Available-for-sale Assets

US$ millions	Consolidated 2009	2008
Listed investments, at fair value:		
– Equity investments – Overseas	**34.9**	23.8
– Debentures with a fixed interest rate of 14.0% (2008: 14.0%) and a maturity date of 1 October 2014 (2008: 1 October 2014) – Overseas	**0.3**	0.3
Unlisted investments, at cost less impairment provisions:		
– Equity investments – Overseas	**5.2**	32.8
Unlisted investments, at fair value:		
– Club debentures – Hong Kong	**2.1**	1.7
Total	**42.5**	58.6
Presented as:		
Non-Current Portion	**2.1**	1.7
Current Portion	**40.4**	56.9
Total	**42.5**	58.6

The fair values of the listed equity investments and debentures are based on quoted market prices. The fair value of the unlisted investments in club debentures has been estimated by reference to recent market transaction prices. The Directors believe that the estimated fair values by reference to market prices, which are recorded in the carrying amounts of the available-for-sale assets, and the related changes in fair values, which are recorded directly in the Group's equity, are reasonable, and that they are the most appropriate values at the end of the reporting period.

21. Deferred Tax

The movements in deferred tax assets during the year are as follows.

US$ millions	Tax loss carry forward	Allowance for doubtful accounts	Liabilities for employee retirement benefits	Others	**Consolidated**
Deferred Tax Assets					
At 1 January 2009	9.2	2.0	17.0	10.5	**38.7**
Exchange translation	2.0	0.1	2.3	1.3	**5.7**
Credit/(charge) to the income statement (Note 7)	5.5	(1.6)	(1.6)	11.6	**13.9**
At 31 December 2009	16.7	0.5	17.7	23.4	**58.3**

US$ millions	Tax loss carry forward	Allowance for doubtful accounts	Liabilities for employee retirement benefits	Others	Consolidated
Deferred Tax Assets					
At 1 January 2008	7.6	1.3	22.3	13.8	45.0
Exchange translation	(1.4)	(0.2)	(2.3)	(2.2)	(6.1)
Acquisition of subsidiary companies	–	–	4.7	13.3	18.0
Credit/(charge) to the income statement	3.0	0.9	(7.7)	(10.5)	(14.3)
Transfer from provision for taxation (Note 28)	–	–	–	5.4	5.4
Reclassification [i]	–	–	–	(9.3)	(9.3)
At 31 December 2008	9.2	2.0	17.0	10.5	38.7

(i) To assets of a disposal group classified as held for sale

The movements in deferred tax liabilities during the year are as follows.

US$ millions	Allowance in excess of related depreciation of property, plant and equipment	Brands	Change in fair value of plantations	Withholding tax on undistributed earnings of subsidiary and associated companies	Others	**Consolidated**
Deferred Tax Liabilities						
At 1 January 2009	(155.9)	(86.5)	(67.0)	(22.3)	(32.3)	**(364.0)**
Exchange translation	(10.7)	(8.9)	(8.2)	–	(1.4)	**(29.2)**
Credit/(charge) to the income statement (Note 7)	(15.7)	(1.8)	(15.4)	(13.7)	33.7	**(12.9)**
Transfer to provision for taxation (Note 28)	–	–	–	10.8	–	**10.8**
At 31 December 2009	(182.3)	(97.2)	(90.6)	(25.2)	–	**(395.3)**

US$ millions	Allowance in excess of related depreciation of property, plant and equipment	Brands	Change in fair value of plantations	Withholding tax on undistributed earnings of subsidiary and associated companies	Others	Consolidated
Deferred Tax Liabilities						
At 1 January 2008	(184.3)	–	(103.1)	(22.0)	(1.4)	(310.8)
Exchange translation	21.8	–	11.6	2.1	14.9	50.4
Acquisition of subsidiary companies	(11.7)	(86.5)	–	–	(79.0)	(177.2)
Credit/(charge) to the income statement	18.3	–	24.5	(2.4)	33.4	73.8
Transfer from provision for taxation (Note 28)	–	–	–	–	(5.2)	(5.2)
Reclassification[(i)]	–	–	–	–	5.0	5.0
At 31 December 2008	(155.9)	(86.5)	(67.0)	(22.3)	(32.3)	(364.0)

(i) To liabilities directly associated with assets classified as held for sale

Pursuant to the Philippines and Indonesian income tax laws, withholding taxes of 10% to 15% is levied on dividends declared to foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary and associated companies in the Philippines and Indonesia. The Group had fully recognized the deferred tax for the withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of its associated companies established in the Philippines. However, except for those earnings to be distributed as dividends, no deferred tax had been recognized for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary companies established in the Philippines and Indonesia. In the opinion of the Directors, it is not probable that these subsidiary companies will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiary companies in the Philippines and Indonesia for which deferred tax liabilities have not been recognized totaled approximately US$32.8 million at 31 December 2009 (2008: US$22.5 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. Other Non-current Assets

	Consolidated	
US$ millions	**2009**	2008
Deposits for acquisition of assets	**125.4**	96.4
Claims for tax refund	**67.1**	7.5
Deferred charges	**1.6**	7.2
Others	**111.8**	106.0
Total	**305.9**	217.1

(A) The deposits for acquisition of assets mainly represent Indofood's deposits for the acquisition of vessels and certain land rights.

(B) The claims for tax refund relates to the tax payment in advance made by Indofood in respect of wheat importation which is creditable against Indofood's corporate income tax payable.

(C) The deferred charges mainly represent deferred costs and expenses relating to Indofood's system implementation.

(D) Other non-current assets with a net book amount of US$8.7 million (2008: US$2.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

23. Cash and Cash Equivalents

	Consolidated		Company	
US$ millions	**2009**	2008	**2009**	2008
Cash at banks and on hand	**751.4**	478.1	**129.6**	34.5
Short-term time deposits	**185.2**	147.8	**132.6**	11.4
Total	**936.6**	625.9	**262.2**	45.9

(A) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

(B) Cash and cash equivalents with a net book amount of US$111.7 million (2008: US$160.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

24. Pledged Deposits and Restricted Cash

At 31 December 2009, the Group had US$12.0 million (2008: US$12.0 million) of pledged bank deposits and US$17.2 million (2008: Nil) of cash which was set aside to cover principal and interest payments of certain borrowings and restricted as to use.

25. Inventories

	Consolidated	
US$ millions	**2009**	2008
Raw materials	**349.1**	389.9
Work in progress	**7.8**	6.1
Finished goods	**192.3**	161.4
Total	**549.2**	557.4

(A) At 31 December 2009, inventories with a carrying amount of US$80.9 million (2008: US$68.8 million) were carried at net realizable value.

(B) At 31 December 2009, inventories with a carrying amount of US$4.0 million (2008: US$58.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

26. Accounts Payable, Other Payables and Accruals

	Consolidated	
US$ millions	**2009**	2008
Accounts payables	**185.0**	233.4
Accrued expenses	**305.6**	287.0
Other payables	**137.6**	147.0
Total	**628.2**	667.4

The ageing profile of trade payables is analyzed as follows:

	Consolidated	
US$ millions	**2009**	2008
0 to 30 days	**162.9**	220.7
31 to 60 days	**5.1**	8.5
61 to 90 days	**11.6**	2.6
Over 90 days	**5.4**	1.6
Total	**185.0**	233.4

All of the accounts payable, other payables and accruals are expected to be settled within one year. The carrying amount of the Group's accounts payable, other payables and accruals approximate to their fair value.

27. Borrowings

US$ millions	Effective interest rate (%)	Maturity	Notes	Consolidated 2009	2008
Short-term					
Bank loans	3.1 – 12.8 (2008: 5.0 – 17.7)	2010 (2008: 2009)		**781.9**	1,115.7
Other loans	2.5 – 9.0 (2008: 2.5 – 12.5)	2010 (2008: 2009)	(A)	**47.8**	91.3
Subtotal				**829.7**	1,207.0
Long-term					
Bank loans	3.1 – 12.8 (2008: 5.0 – 17.7)	2011 – 2018 (2008: 2010 – 2018)	(B)	**2,395.9**	1,770.1
Other loans	10.0 – 13.2 (2008:10.0)	2011 – 2014 (2008: 2010 – 2012)	(C)	**459.7**	181.6
Subtotal				**2,855.6**	1,951.7
Total				**3,685.3**	3,158.7

The balance of short-term borrowings includes US$211.7 million (2008: US$163.1 million) of current portion of long-term borrowings.

The maturity profile of the Group's borrowings is as follows:

	Bank loans		Other loans		**Consolidated**	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008
Not exceeding one year	**781.9**	1,115.7	**47.8**	91.3	**829.7**	1,207.0
More than one year but not exceeding two years	**764.5**	110.4	**–**	–	**764.5**	110.4
More than two years but not exceeding five years	**949.4**	1,129.7	**458.8**	181.6	**1,408.2**	1,311.3
More than five years	**681.9**	530.0	**1.0**	–	**682.9**	530.0
Total	**3,177.7**	2,885.8	**507.6**	272.9	**3,685.3**	3,158.7
Representing amounts repayable						
– wholly payable within five years	**2,467.4**	2,297.3	**506.6**	272.9	**2,974.0**	2,570.2
– not wholly payable within five years	**710.3**	588.5	**1.0**	–	**711.3**	588.5
Total	**3,177.7**	2,885.8	**507.6**	272.9	**3,685.3**	3,158.7

The carrying amounts of the borrowings are denominated in the following currencies:

US$ millions	**Consolidated 2009**	2008
U.S. dollar	**1,582.7**	1,752.4
Rupiah	**1,300.1**	924.0
Peso	**802.5**	482.3
Total	**3,685.3**	3,158.7

An analysis of the carrying amounts of borrowings into fixed and variable interest rates is as follows:

US$ millions	**Consolidated 2009**	2008
Variable interest rate	**1,389.3**	2,479.7
Fixed interest rate	**2,296.0**	679.0
Total	**3,685.3**	3,158.7

The carrying amounts and fair values of the long-term borrowings are as follows:

	Carrying amounts		Fair values	
US$ millions	**2009**	2008	**2009**	2008
Bank loans	**2,395.9**	1,770.1	**2,458.5**	1,777.0
Other loans	**459.7**	181.6	**418.8**	155.3
Total	**2,855.6**	1,951.7	**2,877.3**	1,932.3

The fair values are based on published price quotations for listed notes and bonds issued by the Group and projected cash flows discounted using the borrowing rates ranging from 3.1% to 12.8% (2008: 5.0% to 17.7%) for the other fixed interest rate borrowings. The carrying amounts of the Group's variable interest rate borrowings approximate to their fair values due to frequent repricing.

The carrying amounts of the short-term borrowings approximate to their fair values.

Details of the borrowings are set out below.

(A) Short-term Other Loans

The balance includes Pesos 2.1 billion (US$45.5 million) of a promissory note (2008: Nil) issued by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, in December 2009 secured by its 2.0% (2008: Nil) interest in Philex, with a fixed interest rate of 9.0% per annum, which is repayable in 2010.

(B) Long-term Bank Loans

The balance includes US$875.0 million (with an aggregate face value of US$886.3 million) of bank loans (2008: US$634.2 million, with an aggregate face value of US$641.3 million) borrowed by certain wholly-owned subsidiary companies of the Company with details summarized as follows:

(a) A US$44.8 million (with a face value of US$45.0 million) bank loan (2008: US$44.6 million) drawn in November 2005 secured by the Group's 1.3% (2008: 1.3%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2012. In November 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 5.1% per annum.

(b) A US$44.8 million (with a face value of US$45.0 million) bank loan (2008: US$49.6 million) drawn in July 2006 secured by the Group's 1.2% (2008: 1.2%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in July 2011.

(c) A US$46.1 million (with a face value of US$46.3 million) bank loan (2008: US$46.0 million) drawn in November 2006 secured by the Group's 1.3% (2008: 1.2%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2013.

(d) A US$297.7 million (with a face value of US$300.0 million) bank loan (2008: US$296.5 million) drawn in January 2007 secured by the Group's 8.4% (2008: 6.7%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in December 2011.

(e) A US$198.1 million (with a face value of US$200.0 million) bank loan (2008: US$197.5 million) drawn in August 2007 secured by the Group's 5.4% (2008: 3.9%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in December 2012. In April 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 3.2% per annum.

(f) A US$243.5 million (with a face value of US$250.0 million) bank loan (2008: Nil) drawn during November 2009 and December 2009 secured by the Group's 6.7% (2008: Nil) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable between November 2010 and November 2011.

(C) Long-term Other Loans

The balance includes bonds issued by Indofood. Details are summarized as follows:

(a) Rupiah 2.0 trillion (with a face value of US$212.8 million) of Rupiah bonds (2008: face value of US$182.6 million) issued by Indofood in May 2007, with a coupon rate of 10.0%, are payable quarterly, and mature in May 2012.

(b) Rupiah 1.6 trillion (with a face value of US$171.3 million) of Rupiah bonds (2008: Nil) issued by Indofood in June 2009, with a coupon rate of 13.2%, are payable quarterly, and mature in June 2014.

(c) Rupiah 452 billion (with a face value of US$48.1 million) of 5-year Rupiah bonds (2008: Nil) issued by PT Salim Ivomas Pratama (SIMP) in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

(d) Rupiah 278 billion (with a face value of US$29.6 million) of 5-year Islamic Lease-based bonds (2008: Nil) issued by SIMP in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

(D) Charges on Group Assets

At 31 December 2009, the total borrowings include secured bank and other borrowings of US$1,971.7 million (2008: US$1,604.0 million). Such bank and other borrowings were secured by the Group's property, plant and equipment, plantations, other intangible assets, prepaid land premiums, other non-current assets, cash and cash equivalents and inventories equating to a net book value of US$1,032.0 million (2008: US$1,455.3 million) and the Group's interest of 24.3% (2008: 17.6%) in PLDT, Nil (2008: 8.5%) in MPIC, 2.0% (2008: 20.1%) in Philex, 99.8% (2008: 99.8%) in MPTC, 16.5% (2008: 24.5%) in DMWC, 9.9% (2008: 9.9%) in Maynilad and 10.5% (2008: Nil) in Meralco.

(E) Bank Covenants

The Group has complied with all of its bank covenants, except for those related to Metro Pacific Corporation (Metro Pacific). Since the fourth quarter of 2001, Metro Pacific has been unable to meet its debt obligations. At 31 December 2009, Metro Pacific had Pesos 109 million (US$2.4 million) (2008: Pesos 109 million or US$2.3 million) outstanding debt obligations. Metro Pacific anticipates to further reduce the outstanding debt obligations during 2010.

28. Provision for Taxation

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**55.8**	52.9
Exchange translation	**8.5**	(7.2)
Provision for taxation on estimated assessable profits for the year (Note 7)	**144.7**	121.6
Acquisition of subsidiary companies	**–**	0.7
Transfer from deferred taxation (Note 21)	**10.8**	0.2
Total	**219.8**	168.2
Tax paid	**(150.9)**	(112.4)
At 31 December	**68.9**	55.8

29. Deferred Liabilities and Provisions

US$ millions	Long-term liabilities	Pension	Others	Consolidated 2009	2008
At 1 January	259.7	137.7	74.4	**471.8**	197.9
Exchange translation	9.8	26.3	1.6	**37.7**	(45.8)
Additions	93.8	61.4	14.4	**169.6**	7.5
Payment and utilization	(68.3)	(15.3)	(15.0)	**(98.6)**	(78.0)
Acquisition of subsidiary companies	–	–	–	**–**	390.2
At 31 December	295.0	210.1	75.4	**580.5**	471.8
Presented as:					
Current Portion	46.6	–	26.9	**73.5**	39.4
Non-current Portion	248.4	210.1	48.5	**507.0**	432.4
Total	295.0	210.1	75.4	**580.5**	471.8

The long-term liabilities mainly relate to Maynilad's concession fees payable to MWSS and deferred credits (which represent foreign exchange gains and other payables which will be refunded to the customers and foreign exchange differences arising from retranslation of the portion of Maynilad's foreign currency denominated concession fees payable and loans) and Indofood's accrued liabilities for dismantlement, removal or restoration in relation to property, plant and equipment.

The pension relates to accrued liabilities in relation to retirement schemes and long service payments.

The others mainly relate to MNTC's provision for value-added taxes.

30. Share Capital

US$ millions	Consolidated and Company 2009	2008
Authorized		
5,000,000,000 (2008: 5,000,000,000) ordinary shares of U.S. 1 cent each	**50.0**	50.0
Issued and fully paid		
At 1 January	**32.1**	32.2
Issue of shares upon the exercise of share options	**–**	0.1
Issue of shares in respect of rights issue	**6.5**	–
Repurchase and cancellation of shares	**–**	(0.2)
At 31 December		
3,860,324,403 (2008: 3,213,377,003) ordinary shares of U.S. 1 cent each	**38.6**	32.1

(A) During the year, 3,560,000 (2008: 7,060,000) share options were exercised at the exercise price of HK$1.76 per share (2008: HK$1.76 per share) (before adjusting for the Company's 2009 rights issue), resulting in the issue of 3,560,000 (2008: 7,060,000) new ordinary shares of U.S. 1 cent each for a total cash consideration of HK$6.3 million (US$0.8 million) (2008: HK$12.4 million or US$1.6 million). Details of the Company's share option scheme are set out in Note 36(D)(a) to the Financial Statements.

(B) On 5 October 2009, the Company announced its proposal to raise HK$2,187.5 million (approximately US$282.3 million) before expenses, by way of a fully underwritten rights issue. Under the proposal, the Company offered its shareholders the opportunity to acquire one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share. The offer period commenced on 12 November 2009 and closed for acceptance on 24 November 2009. Dealing in the new shares began on 4 December 2009. The Company raised US$277.1 million (2008: Nil) after expenses from this rights issue.

31. Other Components of Equity

An analysis of the Group's exchange reserve, by principal operating company, is set out below.

	Consolidated	
US$ millions	**2009**	2008
PLDT	**(14.7)**	(27.2)
MPIC	**13.8**	(15.4)
Indofood	**(6.5)**	(75.5)
Philex	**8.4**	3.0
Others	**0.2**	(0.9)
Total	**1.2**	(116.0)

An analysis of the accumulated reserves of associated companies and joint ventures, included within consolidated reserves, is set out below.

	Associated Companies		Joint Ventures		**Consolidated**	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008
Associated Companies and Joint Ventures						
Revenue reserve	**(818.4)**	(861.8)	**(1.7)**	(0.5)	**(820.1)**	(862.3)
Exchange reserve	**(6.0)**	(24.4)	**0.1**	(0.6)	**(5.9)**	(25.0)
Unrealized (losses)/gains on cash flow hedges	**(0.1)**	1.4	**–**	–	**(0.1)**	1.4
Total (Note 15)	**(824.5)**	(884.8)	**(1.6)**	(1.1)	**(826.1)**	(885.9)

The Group's capital and other reserves include US$0.2 million (2008: US$0.2 million) of the capital redemption reserve.

The US$173.8 million (2008: US$173.8 million) contributed surplus of the Company arose from a reorganization of the Group in 1988 and represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiary companies acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus provided certain conditions are met.

32. Minority Interest

An analysis of the Group's minority interest, by principal operating company, is set out below.

	Consolidated	
US$ millions	**2009**	2008
Indofood	**1,428.3**	1,060.7
MPIC	**694.6**	184.4
Total	**2,122.9**	1,245.1

33. Notes to the Consolidated Statement of Cash Flows

(A) Investments in Associated Companies

2009's cash outflow of US$274.5 million relates to the Group's investment in a 14.5% interest in Meralco. 2008's cash outflow mainly relates to the Group's investment in an approximately 20% interest in Philex in November 2008 of US$129.1 million and MPIC's investment in a 34.0% interest in Davao Doctors Hospital in June 2008 of US$11.4 million.

(B) Increased Investments in Associated Companies

2009's cash outflow of US$271.2 million mainly relates to the Group's additional investments in an approximately 11.5% interest in Philex and part of the consideration for the acquisition of a 9.2% interest in Philex by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company. The remaining unpaid portion of the consideration for Two Rivers' acquisition of the 9.2% interest in Philex was satisfied by Two Rivers' issuance of a promissory note with an amount of Pesos 2.1 billion (US$45.5 million). Details in respect of the note are set out in Note 27(A).

(C) Major Non-cash Transactions

(a) In July 2009, MPIC issued 791 million new shares at Pesos 2.57 (US$0.05) per share to LAWL Pte Limited (LAWL), an original minority shareholder of Maynilad, for the settlement of a payable of Pesos 2.0 billion (US$42.3 million) due to LAWL.

(b) On 6 October 2009, MPIC acquired a 10.2% interest in Meralco from the Beneficial Trust Fund of PLDT partially by means of an issuance of approximately 3,159 million new shares at Pesos 3 (US$0.06) per share, equivalent to an aggregate value of Pesos 9.5 billion (US$202.3 million).

34. Commitments and Contingent Liabilities

(A) Capital Expenditure

	Consolidated	
US$ millions	**2009**	2008
Commitments in respect of subsidiary companies:		
Authorized, but not contracted for	**615.0**	548.2
Contracted, but not provided for	**20.7**	6.3
Total	**635.7**	554.5

The Group's capital expenditure commitments principally relate to Indofood's purchase of property, plant and equipment, investments in plantations, and Maynilad's and MNTC's construction of water and toll road infrastructure.

At 31 December 2009, the Company had no commitments in respect of capital expenditure (2008: Nil).

(B) Leasing Commitments

At 31 December 2009, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows.

	Consolidated	
US$ millions	**2009**	2008
Land and Buildings		
– Within one year	**3.5**	2.8
– Between two and five years, inclusive	**2.3**	1.6
– After five years	**0.7**	1.8
Subtotal	**6.5**	6.2
Plant and Equipment		
– Within one year	**0.1**	0.1
– Between two and five years, inclusive	**0.1**	0.1
– After five years	**–**	0.1
Subtotal	**0.2**	0.3
Total	**6.7**	6.5

At 31 December 2009, the Company did not have any leasing commitments (2008: Nil).

(C) Contingent Liabilities

At 31 December 2009, except for US$62.1 million (2008: US$53.7 million) guarantees given by Indofood for loan facilities obtained by certain plantation farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood, neither the Group nor the Company had any significant contingent liabilities (2008: Nil). At 31 December 2009, the Company provided guarantees to certain banks in connection with the banking facilities granted to certain subsidiary companies of the Company.

35. Employees' Benefits

(A) Remuneration

	Consolidated	
US$ millions	**2009**	2008
Basic salaries	**221.0**	209.6
Bonuses	**52.2**	44.3
Benefits in kind	**50.8**	29.5
Pension contributions	**35.7**	35.1
Retirement and severance allowances	**7.5**	10.8
Equity-settled share option expense	**9.3**	18.0
Total (Note 6)	**376.5**	347.3
Average Number of Employees	**67,344**	65,015

The above includes the remuneration of the Directors. Detailed disclosures in respect of Directors' remuneration are set out in Note 36(A) to the Financial Statements.

(B) Retirement Benefits

The Group operates both defined contribution and defined benefit schemes. In addition, the Group has made provisions for estimated liabilities for employee benefits for meeting the minimum benefits required to be paid to the qualified employees as required under Indonesian's labour law.

(a) Defined contribution schemes

The Group operates five (2008: five) defined contribution schemes covering approximately 19,046 (2008: 17,884) employees. The assets of these schemes are held separately from the Group and are administered by independent trustees. Contributions to the schemes, either by the Group or by the employees, are determined by reference to the employees' salaries and length of service and range from 0% to 10% (2008: 0% to 10%). Under the terms of the schemes, the Group cannot be requested to make additional payments over and above these levels of contributions. In three (2008: three) of the schemes, forfeited contributions may be used to reduce the existing levels of employer contributions and, in 2009, no amount (2008: Nil) was used for this purpose. At 31 December 2009, the forfeited contributions had been fully utilized.

(b) Defined benefit schemes and estimated liabilities for employee benefits

The Group operates four (2008: four) defined benefit schemes covering approximately 2,500 (2008: 2,615) employees. The assets of three (2008: four) of these schemes are held separately from the Group and are administered by independent trustees. Benefits are determined by reference to employees' final salaries and length of service, and the schemes have undergone independent valuations. These actuarial valuations, performed by the actuaries of PT Sentra Jasa Aktuaria (a member of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia), Actuarial Advisers, Inc. or Institutional Synergy, Inc, FASP (members of Actuary Society of the Philippines), were based on the projected unit credit method. The plan assets do not include any financial instruments of the Group or property occupied by, or other assets used by, the Group. At 31 December 2009, the Group's level of funding in respect of its defined benefit schemes was 94.2% (2008: 59.5%).

The Group has made provisions for estimated liabilities for employee benefits covering approximately 47,637 (2008: 45,953) employees. The amounts of such provisions were determined by reference to employees' final salaries and length of service and based on actuarial computations prepared by the actuaries of PT Sentra Jasa Aktuaria and PT Jasa Aktuaria Praptasentosa Gunajasa (members of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia) using the projected unit credit method.

(I) The amount of liability under defined benefit schemes and estimated liabilities for employee benefits included in the statement of financial position is as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	**Consolidated 2009**	Consolidated 2008
Present value of defined benefit obligations	(20.6)	(203.7)	**(224.3)**	(144.3)
Fair value of plan assets	19.4	–	**19.4**	11.0
Liability in the Statement of Financial Position	(1.2)	(203.7)	**(204.9)**	(133.3)

(II) The changes in the present value of the defined benefit obligations during the year are as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	**Consolidated 2009**	Consolidated 2008
At 1 January	(18.5)	(125.8)	**(144.3)**	(154.9)
Exchange translation	(1.5)	(26.1)	**(27.6)**	22.5
Current service cost	(1.5)	(15.2)	**(16.7)**	(12.3)
Past service cost	–	(2.6)	**(2.6)**	–
Interest cost on obligation	(2.3)	(16.0)	**(18.3)**	(18.8)
Actuarial gains/(losses)	0.9	(25.3)	**(24.4)**	26.2
Benefit paid	2.3	7.3	**9.6**	11.1
Acquisition of subsidiary companies	–	–	**–**	(18.1)
At 31 December	(20.6)	(203.7)	**(224.3)**	(144.3)

(III) The changes in the fair value of plan assets under defined benefit schemes during the year are as follows:

US$ millions	**Consolidated 2009**	Consolidated 2008
At 1 January	**11.0**	6.3
Exchange translation	**1.2**	(1.4)
Expected return	**0.7**	0.5
Actuarial gains/(losses)	**1.7**	(0.6)
Contributions by employer	**6.2**	1.8
Benefit paid	**(1.4)**	(1.8)
Assets distributed on settlements	**–**	(0.8)
Acquisition of subsidiary companies	**–**	7.0
At 31 December	**19.4**	11.0

The overall expected rate of return on assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

(IV) The major categories of plan assets as a percentage of the fair value of the total plan assets under defined benefit schemes are as follows:

	Consolidated	
	2009	2008
Indonesian equities	**39%**	48%
Philippines debt securities	**32%**	30%
Philippines equities	**29%**	22%

(V) Amounts for the current and previous four years for defined benefit schemes are as follows:

	Consolidated				
US$ millions	**2009**	2008	2007	2006	2005
Defined benefit obligations	**(20.6)**	(18.5)	(11.0)	(10.5)	(11.0)
Plan assets	**19.4**	11.0	6.3	6.8	6.2
Deficit	**(1.2)**	(7.5)	(4.7)	(3.7)	(4.8)
Experience adjustments on plan liabilities	**(5.5)**	(4.1)	(0.7)	(0.1)	(2.3)
Experience adjustments on plan assets	**(0.8)**	(0.6)	–	–	–

(VI) The amount recognized in the income statement is analyzed as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	Consolidated **2009**	2008
Current service cost	1.5	15.2	**16.7**	12.3
Interest cost on obligation	2.3	16.0	**18.3**	18.8
Expected return on plan assets	(0.7)	–	**(0.7)**	(0.5)
Net actuarial losses/(gains) recognized in the year	(2.6)	25.3	**22.7**	(25.6)
Total[(i)]	0.5	56.5	**57.0**	5.0
Actual Return on Plan Assets			**9%**	7%

(i) Included in cost of sales, distribution costs, administrative expenses and other operating expenses, net

(VII) Principal actuarial assumptions (weighted average) at 31 December are as follows:

	Consolidated	
US$ millions	**2009**	2008
Discount rate	**11%**	11%
Expected return on plan assets	**8%**	8%
Future salary increases	**9%**	9%
Future pension increases	**9%**	9%
Average remaining working lives of employees (years)	**16.2**	17.8

(VIII) The Group expects to contribute US$1.9 million (2008: US$2.0 million) to its defined benefit pension plans in the next year.

(C) Loans to Officers

During 2009 and 2008, there were no loans made by the Group to officers which require disclosure pursuant to Section 161B of the Hong Kong Companies Ordinance.

36. Directors' and Senior Executives' Remuneration

(A) Directors' Remuneration

The table below shows the remuneration of Directors on an individual basis.

Directors' Remuneration – 2009

US$'000	Non-performance based Salaries	Other benefits	Pension contributions	Performance based payments (i)	Equity-settled share option expense	Fees (ii)	Emoluments (iii)	2009 Total
Chairman								
Anthoni Salim	1,459	–	–	–	–	15	–	**1,474**
Executive Directors								
Manuel V. Pangilinan, *Managing Director and Chief Executive Officer*	2,057	930	142	1,215	2,406	–	–	**6,750**
Edward A. Tortorici	1,242	137	921	–	1,459	–	–	**3,759**
Robert C. Nicholson	985	34	2	514	1,168	–	–	**2,703**
Non-executive Directors								
Ambassador Albert F. del Rosario	–	–	–	–	44	181	–	**225**
Sutanto Djuhar	–	–	–	–	–	–	–	**–**
Tedy Djuhar	–	–	–	–	–	50	–	**50**
Ibrahim Risjad	–	–	–	–	–	5	–	**5**
Benny S. Santoso	–	–	–	–	–	108	–	**108**
Napoleon L. Nazareno	1,750	1	–	980	47	104	–	**2,882**
Independent Non-executive Directors								
Graham L. Pickles	–	–	–	–	–	95	–	**95**
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	–	–	–	–	–	75	–	**75**
Sir David W.C. Tang, *KBE*	–	–	–	–	–	35	77	**112**
Jun Tang	–	–	–	–	23	5	–	**28**
Total	7,493	1,102	1,065	2,709	5,147	673	77	**18,266**

Directors' Remuneration – 2008

US$'000	Non-performance based Salaries	Other benefits	Pension contributions	Performance based payments (i)	Equity-settled share option expense	Fees (ii)	Emoluments (iii)	2008 Total
Chairman								
Anthoni Salim	1,152	–	–	–	–	30	–	1,182
Executive Directors								
Manuel V. Pangilinan, *Managing Director and Chief Executive Officer*	2,080	460	142	1,559	4,028	–	–	8,269
Edward A. Tortorici	1,242	135	1,595	120	2,499	–	–	5,591
Robert C. Nicholson	892	23	2	446	2,117	–	–	3,480
Non-executive Directors								
Ambassador Albert F. del Rosario	–	–	–	–	720	160	–	880
Sutanto Djuhar	–	–	–	–	–	–	–	–
Tedy Djuhar	–	–	–	–	–	40	–	40
Ibrahim Risjad	–	–	–	–	–	–	–	–
Benny S. Santoso	–	–	–	–	720	89	–	809
Napoleon L. Nazareno	244	119	19	146	–	91	–	619
Independent Non-executive Directors								
Graham L. Pickles	–	–	–	–	720	115	–	835
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	–	–	–	–	720	90	–	810
Sir David W.C. Tang, *KBE*	–	–	–	–	720	45	77	842
Total	5,610	737	1,758	2,271	12,244	660	77	23,357

(i) Performance based payments comprise performance bonuses and long-term monetary incentive awards
(ii) For meetings attended
(iii) For consultancy services provided to the Company

Included within the total Directors' remuneration is an amount of US$1.2 million (2008: US$1.3 million) paid by PLDT, an associated company, in respect of the services of the Managing Director and Chief Executive Officer.

(B) Senior Executives' Remuneration

As similar remuneration schemes operate for the senior executives of the Group, their remuneration may exceed those of the Company's Directors. In 2009, Nil (2008: two) senior executives were among the Group's five highest earning employees. All (2008: three) of the five highest earning employees are the Company's Directors.

US$ millions	**2009**	2008
Non-performance based		
– Salaries and benefits	**–**	0.8
Performance based		
– Bonuses and long-term monetary incentive awards	**–**	0.2
Equity-settled share option expense	**–**	2.1
Total	**–**	3.1

The table below shows the remuneration of the two senior executives in 2008 who were among the Group's five highest earning employees.

Remuneration bands	**2009 Number of employees**	2008 Number of employees
US$1,469,001 – US$1,533,000	**–**	1
US$1,597,001 – US$1,661,000	**–**	1
Total	**–**	2

(C) Key Management Personnel Compensation

	Consolidated	
US$ millions	**2009**	2008
Non-performance based		
– Salaries and benefits	**27.2**	22.5
– Pension contributions	**1.4**	1.9
Performance based		
– Bonuses and long-term monetary incentive awards	**11.7**	9.1
Equity-settled share option expense	**8.4**	18.0
Fees	**0.6**	0.6
Total	**49.3**	52.1

(D) Share Options

Particulars of the share options of the Company and its subsidiary company granted to the Directors and senior executives of the Company and its subsidiary company at 31 December 2009 are set out below.

(a) Particulars of the Company's Share Option Scheme

	Share options held at 1 January 2009	Share options exercised during the year	Adjustment for rights issue	Share options granted during the year	**Share options held at 31 December 2009**	Share option exercise price per share (i) (HK$)	Market price per share at the date of grant (i) (HK$)	Market price per share during the period of exercise (i) (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors												
Manuel V. Pangilinan	31,800,000	–	1,717,996	–	**33,517,996**	1.6698	1.67	–	1 June 2004	December 2008	June 2005	May 2014
	30,200,000	–	1,631,556	–	**31,831,556**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	3,560,000	(3,560,000)	–	–	**–**	1.6698	1.67	3.58	1 June 2004	December 2008	June 2005	May 2014
	18,200,000	–	983,256	–	**19,183,256**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,000,000	–	756,351	–	**14,756,351**	1.6698	1.67		1 June 2004	December 2008	June 2005	May 2014
	15,500,000	–	837,388	–	**16,337,388**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors												
Ambassador Albert F. del Rosario	2,840,000	–	153,431	–	**2,993,431**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,840,000	–	153,431	–	**2,993,431**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Napoleon L. Nazareno	–	–	–	3,330,000	**3,330,000**	5.0569	4.61	–	11 December 2009	December 2010	December 2010	December 2019
Independent Non-Executive Directors												
Graham L. Pickles	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,340,000	–	72,394	–	**1,412,394**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Jun Tang	–	–	–	3,330,000	**3,330,000**	5.0569	4.61		11 December 2009	December 2011	December 2011	December 2019
Senior Executives	29,032,000	–	1,568,455	–	**30,600,455**	1.6698	1.67	–	1 June 2004	December 2008	June 2005	May 2014
	4,500,000	–	243,113	–	**4,743,113**	3.1072	3.08	–	7 June 2006	December 2010	June 2007	June 2016
	42,220,000	–	2,280,938	–	**44,500,938**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Total	211,832,000	(3,560,000)	11,251,904	6,660,000	**226,183,904**							

(i) Adjusted for the effect of the Company's rights issue completed in December 2009

	Share options held at 1 January 2008	Share options exercised during the year	Share options held at 31 December 2008	Share option exercise price per share (ii) (HK$)	Market price per share at the date of grant (ii) (HK$)	Market price per share during the period of exercise (ii) (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors										
Manuel V. Pangilinan	31,800,000	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	30,200,000	–	30,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	10,620,000	(7,060,000)	3,560,000	1.76	1.76	5.72	1 June 2004	December 2008	June 2005	May 2014
	18,200,000	–	18,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,000,000	–	14,000,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	15,500,000	–	15,500,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors										
Ambassador Albert F. del Rosario	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Independent Non-Executive Directors										
Graham L. Pickles	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,340,000	–	1,340,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Senior Executives	29,032,000	–	29,032,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	4,500,000	–	4,500,000	3.275	3.25	–	7 June 2006	December 2010	June 2007	June 2016
	42,220,000	–	42,220,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Total	218,892,000	(7,060,000)	211,832,000							

(ii) Before adjusting for the effect of the Company's rights issue completed in December 2009

At the AGM held on 24 May 2004, the Company's shareholders approved a share option scheme (the Scheme) under which the Directors may, at their discretion, at any time during the period of the Scheme, grant Directors and executives of the Company's share options as part of the Company's long-term incentive program. The Scheme, which complies with the provisions set out in Chapter 17 of the Listing Rules, became effective on 24 May 2004. The Scheme will be valid for 10 years and will expire on 23 May 2014.

The maximum number of shares on which options may be granted may not exceed 10% of the Company's issued share capital, excluding any shares issued on the exercise of options at any time. The maximum number of shares in respect of which options may be granted under the Scheme to any one participant in any 12-month period is limited to 1% of the aggregate number of shares of the Company in issue at the time of the proposed grant of options to such participant.

The exercise price in relation to each share option offer shall be determined by the Directors at their absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the SEHK on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the SEHK for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Company's share on the date of grant. The terms of the Scheme provide that subject to any other restrictions on vesting imposed by the Directors, share options may be exercised under the Scheme at any time from the date of acceptance until the date of expiry. All options presently outstanding under the Scheme are subject to certain restrictions on exercise including a prohibition on exercise at any time during the period commencing one year after the date on which any option is accepted. Options which lapse or are cancelled prior to their expiry date are deleted from the register of options.

On 1 June 2004, 134,586,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$0.849 per share or an aggregate value of US$14.6 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$1.76 per share[(i)]
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$1.76 per share[(i)]
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	55%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.06% per annum

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 6.61 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 75% higher than the exercise price.

On 1 June 2006, 4,500,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$1.554 per share or an aggregate value of US$0.9 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$3.25 per share[(ii)]
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$3.275 per share[(iii)]
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	50%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.71% per annum

Taking into account the expected turnover rate of the senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 6.79 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 100% higher than the exercise price.

On 5 September 2007, 121,920,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$2.596 per share or an aggregate value of US$40.6 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$5.33 per share(iv)
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$5.33 per share(iv)
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	45%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.40% per annum

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 7.60 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 150% higher than the exercise price.

On 11 December 2009, 6,660,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, a Towers Watson Company, based on the binomial model, was HK$1.935 per share or an aggregate value of US$1.7 million for all options granted. The assumptions used were as follows:

Share price at the date of grant	HK$4.61 per share
Exercise price	HK$5.0569 per share
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	45%
Option life	10 years
Expected dividend yield	2% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	2.20% per annum

Taking into account the expected turnover rate of the Directors and the early exercise behavior, the average expected life of the options granted was estimated to be 8 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 250% higher than the exercise price.

The binomial model, applied for determining the estimated values of the share options granted under the Scheme, was developed for use in estimating the fair value of the traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of the traded options, changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2(D)(r)(III) to the Financial Statements.

(i) HK$1.6698 after adjusting for the effect of the Company's rights issue
(ii) HK$3.1072 after adjusting for the effect of the Company's rights issue
(iii) HK$3.0834 after adjusting for the effect of the Company's rights issue
(iv) HK$5.0569 after adjusting for the effect of the Company's rights issue

(b) Particulars of MPIC's Share Option Scheme

	Share options held at 1 January 2009	Share options granted during the year	Share options exercised during the year	Share options cancelled during the year	**Share options held at 31 December 2009**	Share options exercise price per share (Peso)	Market price per share at date of grant (Peso)	Market price per share during the period of exercise (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors												
Manuel V. Pangilinan	7,500,000	–	–	–	**7,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	7,500,000	–	–	**7,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Edward A. Tortorici	5,000,000	–	–	–	**5,000,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	5,000,000	–	–	**5,000,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Ambassador Albert F. del Rosario	2,500,000	–	–	–	**2,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	2,500,000	–	–	**2,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Senior Executives	46,000,000	–	(7,365,000)	(2,500,000)	**36,135,000**	2.12	2.10	2.85 - 6.00	9 December 2008	January 2010	January 2009	January 2013
	–	47,925,245	(6,580,000)	(3,475,245)	**37,870,000**	2.73	2.65	3.25 - 6.00	10 March 2009	March 2010	March 2009	March 2013
Total	61,000,000	62,925,245	(13,945,000)	(5,975,245)	**104,005,000**							

	Share options held at 1 January 2008	Share options granted during the year	Share options held at 31 December 2008	Share options exercise price per share (Peso)	Market price per share at date of grant (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors									
Manuel V. Pangilinan	–	7,500,000	7,500,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Edward A. Tortorici	–	5,000,000	5,000,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Ambassador Albert F. del Rosario	–	2,500,000	2,500,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Senior Executives	–	46,000,000	46,000,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Total	–	61,000,000	61,000,000						

At the annual general meeting held on 1 June 2007, the Company's shareholders approved a share option scheme under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share options of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme was subsequently approved by MPIC's shareholders and became effective on 14 June 2007 and would be valid for 10 years. At a special shareholders' meetings of MPIC held on 20 February 2009, MPIC's shareholders approved the amendments to MPIC's share option scheme which include (i) a refreshment of the number of MPIC options that may be granted to take into account of the increase in the capital stock of MPIC or other changes to its capital structure which have either been approved by the shareholders, implemented, in process, or which may potentially be approved or implemented in the future; and (ii) the inclusion in MPIC's share option plan of a requirement for MPIC to comply with relevant corporate requirements and regulations applicable to MPIC's parent company. The amendments and the maximum number of MPIC's share options of 941,676,681 (representing 10% of MPIC's share in issue at the date of approval of the proposed refreshment) were subsequently approved by the Company's shareholders in the annual general meeting held on 3 June 2009.

The maximum number of shares on which options may be granted under the scheme may not exceed 10% of the issued share capital of MPIC as 1 June 2007, at the date on which the MPIC's share option scheme was approved by the Company's shareholders on the annual general meeting held on 1 June 2007. The aggregate number of shares which may be issued upon exercise of the options granted and to be granted to any eligible participant (whether or not already an option holder) in any 12-month period shall not exceed 1% of the shares in issue at the relevant time.

The exercise price in relation to each option granted under the scheme shall be determined by MPIC's directors at their absolute discretion, but in any event shall not be less than (i) the closing price of MPIC's shares for one or more board lots of such MPIC's shares on the Philippine Stock Exchange (PSE) on the option grant date; (ii) the average closing price of MPIC's shares for one or more board lots of such MPIC's shares on the PSE for the five business days on which dealings in the MPIC's shares are made immediately preceding the option grant date; or (iii) the par value of the MPIC's shares, whichever is higher.

On 9 December 2008, 61,000,000 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes option pricing model, was Peso 0.37 per share or an aggregate value of Pesos 22.8 million (US$0.5 million) for all options granted. The assumptions used were as follows:

Share price at the date of grant	Pesos 2.10 per share
Exercise price	Pesos 2.12 per share
Expected volatility (based on historical volatility of the MPIC's shares commensurate with the average expected life of the options granted)	76%
Option life	4 years
Expected dividend yield	Nil
Average risk-free interest rate (based on the Philippine government zero coupon bond)	6.26% per annum

On 10 March 2009, 62,924,245 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on Black-Scholes option pricing model, was Peso 0.51 per share or an aggregate value of Pesos 31.8 million (US$0.7 million) for all options granted. The assumptions used were as follows:

Share price at the date of grant	Pesos 2.65 per share
Exercise price	Pesos 2.73 per share
Expected volatility (based on historical volatility of the MPIC's shares commensurate with the average expected life of the options granted)	64%
Option life	4 years
Expected dividend yield	Nil
Average risk-free interest rate (based on the Philippine government zero coupon bond)	4.53% per annum

The Black-Scholes option pricing model, applied for determining the estimated values of the share options granted under MPIC's scheme, requires input of higher subjective assumptions, including the expected stock price volatility. Changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2D(r)(III) to the Financial Statements.

37. Related Party Transactions

Significant related party transactions entered into by the Group during the year are disclosed as follows:

(A) In June 2009, MPIC entered into a sale and purchase agreement with AB Holdings Corporation (ABHC), Alfred Xerez-Burgos, Jr. (AXB) (together the 49.0% shareholder of Landco) and Landco, pursuant to which MPIC sold 1.3 million common shares of Landco (representing 17.0% interest in Landco) for a consideration of Pesos 203 million (approximately US$4.2 million) to ABHC. This transaction also constituted a connected transaction as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on page 59.

(B) Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, has a technical assistance agreement with Smart Communications, Inc. (Smart), a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% (2008: 1%) of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to Pesos 634 million (US$13.3 million) for the year ended 31 December 2009 (2008: Pesos 630 million or US$14.1 million). At 31 December 2009, the outstanding technical service fee payable amounted to Pesos 188 million (US$4.1 million) (2008: Outstanding prepaid technical service fee of Pesos 8 million or US$0.2 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of the Company and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	Consolidated	
For the year ended 31 December US$ millions	**2009**	2008
Income Statement Items		
Sales of finished goods		
– to associated companies and joint ventures	**30.3**	24.5
– to affiliated companies	**64.1**	60.8
Purchases of raw materials		
– from associated companies and joint ventures	**44.2**	41.5
– from affiliated companies	**15.6**	14.0
Management and technical services fee income and royalty income		
– from associated companies and joint ventures	**1.0**	0.9
– from affiliated companies	**7.8**	7.5
Insurance expenses		
– to affiliated companies	**2.9**	2.8
Rental expenses		
– to affiliated companies	**1.0**	1.2
Transportation and pump services expenses		
– to affiliated companies	**0.4**	0.4

Approximately 3% (2008: 2%) of Indofood's sales and 2% (2008: 2%) of its purchases were transacted with these related companies.

Nature of balances

At 31 December US$ millions	Consolidated **2009**	 2008
Statement of Financial Position Items		
Accounts receivable – trade		
– from associated companies and joint ventures	**3.3**	2.6
– from affiliated companies	**8.7**	13.3
Accounts receivable – non-trade		
– from associated companies and joint ventures	**–**	0.4
– from affiliated companies	**12.2**	8.3
Accounts payable – trade		
– to associated companies and joint ventures	**6.2**	3.6
– to affiliated companies	**2.6**	2.3
Accounts payable – non-trade		
– to associated companies and joint ventures	**0.2**	–
– to affiliated companies	**30.5**	19.2

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on pages 59 to 67.

(D) For the year ended 31 December 2009, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. (DMCI) (a 44.6% shareholder of DMWC, Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. (Consunji), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. (DMCIPD), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012. These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on pages 69 to 71.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

For the year ended 31 December US$ millions	**2009**	2008[(i)]
Income Statement Items		
Rental expenses	**0.1**	–
Capital Expenditure Items		
Construction services for water infrastructure obtained	**47.5**	22.0

(i) Information in respect of Maynilad relates to 17 July 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

At 31 December US$ millions	**2009**	2008
Statement of Financial Position Items		
Accounts payable – trade	**8.0**	3.0

(E) For the year ended 31 December 2009, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

For the year ended 31 December US$ millions	2009	2008[i]
Income Statement Items		
Operator's fee	**28.0**	4.2
Management income	**1.1**	–
Guarantee income	**0.4**	0.1
Interest income	**0.3**	–

(i) Information in respect of MNTC relates to 13 November 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

At 31 December US$ millions	2009	2008
Statement of Financial Position Items		
Accounts receivable – trade	**13.7**	7.3
Accounts payable – trade	**6.1**	5.6

38. Financial Instruments by Category and Fair Value Hierarchy

(A) The carrying amount of each of the categories of financial instruments as at the end of the reporting period are as follows:

(a) Financial Assets

	Consolidated						Company	
	2009			2008			2009	2008
US$ million	Loans and receivable	Available-for-sale financial assets	Total	Loans and receivable	Available-for-sale financial assets	Total	Loans and receivables	Loans and receivables
Accounts and other receivables (Non-current)	**6.6**	**–**	**6.6**	3.0	–	3.0	**–**	–
Available-for-sale assets (Non-current)	**–**	**2.1**	**2.1**	–	1.7	1.7	**–**	–
Other non-current assets	**58.9**	**–**	**58.9**	60.6	–	60.6	**–**	–
Cash and cash equivalents	**936.6**	**–**	**936.6**	625.9	–	625.9	**262.2**	45.9
Pledged deposits and restricted cash	**29.2**	**–**	**29.2**	12.0	–	12.0	**–**	–
Available-for-sale assets (Current)	**–**	**40.4**	**40.4**	–	56.9	56.9	**–**	–
Accounts and other receivables (Current)	**580.3**	**–**	**580.3**	375.7	–	375.7	**–**	–
Amounts due from subsidiary companies	**–**	**–**	**–**	–	–	–	**2,062.9**	1,889.5
Total	**1,611.6**	**42.5**	**1,654.1**	1,077.2	58.6	1,135.8	**2,325.1**	1,935.4

(b) Financial Liabilities

At 31 December 2009, the Deferred liabilities and provisions accounts include US$2.6 million (2008: US$0.6 million) of derivative liabilities measured at fair value. Details of the corresponding derivative financial instruments, qualified for cash flow hedge accounting, are disclosed in the Financial Review section on pages 76 to 79. The following table summarizes the financial liabilities measured at amortized cost at the end of the reporting period.

	Consolidated		Company	
US$ million	**2009 Financial liabilities at amortized cost**	2008 Financial liabilities at amortized cost	**2009 Financial liabilities at amortized cost**	2008 Financial liabilities at amortized cost
Accounts payable, other payables and accruals	**628.2**	667.4	**–**	–
Short-term borrowings	**829.7**	1,207.0	**–**	–
Current portion of deferred liabilities and provisions	**26.2**	18.9	**–**	–
Long-term borrowings	**2,855.6**	1,951.7	**–**	–
Deferred liabilities and provisions	**196.4**	140.3	**–**	–
Amounts due from subsidiary companies	**–**	–	**782.4**	832.6
Other payables and accruals	**–**	–	**0.8**	0.6
Loans from subsidiary companies	**–**	–	**729.9**	540.2
Total	**4,536.1**	3,985.3	**1,513.1**	1,373.4

(B) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

US$ million	Level 1	Level 2	Level 3	**Consolidated**
Available-for-sale assets				
– Listed equity investments	34.9	–	–	**34.9**
– Listed debentures	0.3	–	–	**0.3**
– Unlisted investments	–	–	7.3	**7.3**
Derivative liabilities (i)	–	(2.6)	–	**(2.6)**
Net Amount	35.2	(2.6)	7.3	**39.9**

(i) Included within Deferred liabilities and provisions

The movements in unlisted available-for-sale assets during the year in the balance of Level 3 fair value measurements are as follows:

US$ million	**Consolidated**
At 1 January 2009	**34.5**
Exchange translation	**3.8**
Additions	**5.2**
Net unrealized gains recognized in other comprehensive income during the year	**3.6**
Disposal	**(39.8)**
At 31 December 2009	**7.3**
Total gains for the year reclassified from other comprehensive income on disposal	**3.6**

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

39. Capital and Financial Risk Management

(A) Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to ensure that it maintains an optimal capital structure for supporting the stability and growth of its business and maximizing shareholder value.

The Group manages its capital structure, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. The Group's policy is to keep the gearing ratio at an optimal level which supports its business. The Group includes within net debt, short-term borrowings and long-term borrowings, less cash and cash equivalents and pledged deposits and restricted cash. The total equity includes equity attributable to owners of the parent and minority interest.

	Consolidated	
US$ millions	**2009**	2008
Short-term borrowings	**829.7**	1,207.0
Long-term borrowings	**2,855.6**	1,951.7
Less: Cash and cash equivalents	**(936.6)**	(625.9)
Less: Pledged deposits and restricted cash	**(29.2)**	(12.0)
Net debt	**2,719.5**	2,520.8
Equity attributable to owners of the parent	**1,916.2**	1,130.1
Minority interest	**2,122.9**	1,245.1
Total equity	**4,039.1**	2,375.2
Gearing ratio (times)	**0.67**	1.06

(B) Financial Risk Management

The Group's principal financial instruments include the various financial assets (which comprise accounts receivables, other receivables, available-for-sale assets, cash and cash equivalents, pledged deposits and restricted cash) and financial liabilities (which comprise accounts payable, other payables and accruals, short-term borrowings, long-term borrowings and deferred liabilities and provisions). The main purpose of the cash and cash equivalents, and short-term and long-term borrowings is to finance the Group's operations. The other financial assets and liabilities, such as accounts receivable and accounts payable, mainly arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign exchange contracts and interest rate swap. The purpose is to manage the currency and interest rate risks arising from the Group's sources of finance and its operations.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are market risk (including currency risk and price risk), credit risk, liquidity risk and fair value and cash flow interest rate risks. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 2(D)(u) to the Financial Statements.

(a) Market Risk

(I) Currency Risk

To manage the Group's foreign exchange risk arising from future commercial transactions, recognized assets and liabilities, and to improve investment and cash flow planning, in addition to natural hedges, the Group enters into and engages in foreign exchange contracts for the purpose of managing its foreign exchange rate exposures emanating from business, transaction specific, as well as currency translation risks and reducing and/or managing the adverse impact of changes in foreign exchange rates on the Group's operating results and cash flows. However, some of the aforementioned derivative instruments of the Group do not qualify as effective hedges and therefore are not designated as cash flow hedges for accounting purposes in accordance with the provisions of HKAS 39.

The following table summarizes the Group's exposure at the end of the reporting period to currency risk arising from recognized financial assets and liabilities denominated in U.S. dollars, which being different from the functional currencies of the peso and the rupiah used by the Group's subsidiary companies in the Philippines and Indonesia.

	Consolidated	
US$ millions	**2009**	2008
Account receivables and other receivables	**37.4**	61.5
Cash and cash equivalents	**261.6**	215.8
Pledged deposits and restricted cash	**12.0**	12.0
Short-term borrowings and long-term borrowings	**(652.3)**	(920.8)
Accounts payable, other payables and accruals	**(79.8)**	(125.5)
Net Amount	**(421.1)**	(757.0)

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities as listed above to a reasonably possible change in the exchange rates of rupiah and peso, with all other variables held constant, of the Group's profit attributable to equity holders of the parent and retained earnings (due mainly to foreign exchange gains/losses on translation of the U.S. dollar denominated financial assets and liabilities). There is no significant impact on the other components of the Group's equity.

	2009		2008	
US$ millions	**(Depreciation)/ appreciation against the U.S. dollar (%)**	**(Decrease)/ increase in profit attributable to owners of the parent and retained earnings**	Depreciation against the U.S. dollar (%)	Decrease in profit attributable to owners of the parent and retained earnings
Rupiah	**(1.1)**	**(1.5)**	(5.4)	(11.4)
Peso	**0.4**	**0.1**	(4.0)	(2.4)

(II) *Price Risk*
The Group's price risk principally relates to the changes in the market value of its equity investments.

(b) Credit Risk
For the consumer food products business, the Group has credit risk arising from the credit given to the customers, but it has policies in place to ensure that wholesales of products are made to creditworthy customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any particular customer, such as requiring sub-distributors to provide bank guarantees. For the water distribution business, the Group allows 60 days of credit to its customers. For the toll roads business, the Group collects its toll fees through its associated company, TMC, by cash, the users' prepaid and reloadable electronic toll collection devices and through credit card payment arrangements. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts.

The credit risk of the Group's other financial assets, which include cash and cash equivalents and certain investments in debt securities classified as available-for-sale assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments and the unrealized losses on available-for-sale assets charged directly to the Group's equity.

The Group has no significant concentrations of credit risk.

(c) Liquidity Risk

The Group manages its liquidity profile to be able to finance its capital expenditure and service its maturing debts by maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, and debt capital and equity capital issues.

The maturity profile of the Group's financial liabilities at 31 December 2009 based on the contractual undiscounted payments, including future interest payments, is as follows.

	Accounts payable, other payables and accruals		Borrowings		Deferred liabilities and provisions		**Consolidated**	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Not exceeding one year	**628.2**	667.4	**1,030.7**	1,509.4	**37.2**	30.0	**1,696.1**	2,206.8
More than one year but not exceeding two years	**–**	–	**969.7**	298.9	**50.0**	24.5	**1,019.7**	323.4
More than two years but not exceeding five years	**–**	–	**1,670.7**	1,851.5	**101.1**	58.0	**1,771.8**	1,909.5
More than five years	**–**	–	**814.6**	692.2	**272.8**	77.1	**1,087.4**	769.3
Total	**628.2**	667.4	**4,485.7**	4,352.0	**461.1**	189.6	**5,575.0**	5,209.0

(d) Fair Value and Cash Flow Interest Rate Risks

The Group's interest rate risk arises from interest-bearing borrowings, cash and cash equivalents, pledged deposits and restricted cash. Borrowings and cash and cash equivalents with variable interest rate terms expose the Group to cash flow interest rate risk. Borrowings and cash and cash equivalents with fixed interest rate terms expose the Group to fair value interest rate risk. At 31 December 2009, 37.7% (2008: 21.5%) of the Group's borrowings were effectively at fixed rates.

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit attributable to owners of the parent and retained earnings (through the impact on variable rate borrowings and cash and cash equivalents). There is no significant impact on the other components of the Group's equity.

	2009		2008	
US$ millions	**Increase (Basis points)**	**Decrease in profit attributable to owners of the parent and retained earnings**	Increase/ (decrease) (Basis points)	(Decrease)/ increase in profit attributable to owners of the parent and retained earnings
Interest rates for				
– U. S. dollar	**25**	**(1.9)**	50	(4.8)
– Rupiah	**100**	**(1.0)**	(300)	0.4
– Peso	**100**	**(2.2)**	(300)	5.1

40. Subsequent Events

(A) On 28 January 2010, Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, completed its acquisition of an additional interest in Philex of approximately 5.9% at a total consideration of Pesos 6.0 billion (US$130.9 million). The consideration is payable in four installments, the first installment of 10% was paid in January 2010 and the remaining 90% payable in three installments of 10%, 10% and 70% in January 2011, January 2012 and January 2013, respectively. The outstanding installment payables are interest-bearing and at an interest rate of 5.5% per annum. The transaction increased Two Rivers' interest in Philex from 9.2% to approximately 15.1%. In addition, the Group also held a 31.5% interest in Philex.

(B) On 1 March 2010, MPIC, Pilipino Telephone Corporation (Piltel) (an indirect subsidiary company of PLDT) and Rightlight Holdings, Inc. (subsequently renamed Beacon Electric Asset Holdings, Inc. (Beacon Electric)) (a wholly owned special purpose vehicle of MPIC set up with the sole purpose of holding shares in Meralco) entered into an Omnibus Agreement to restructure their current shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and Piltel will consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon Electric; thus giving Beacon Electric an approximately 28.2% interest in Meralco and (b) Piltel will acquire a 50% interest in Beacon Electric which will become a 50:50 joint venture between MPIC and Piltel.

The above transactions involve (a) a sale by MPIC to Beacon Electric of 163.6 million common shares of Meralco at a total consideration of Pesos 24.5 billion (US$531.2 million) or Pesos 150 (US$3.25) per share, (b) a subscription by MPIC of 1,156.5 million common shares of Beacon Electric at a price of Pesos 20 (US$0.43) per share and 801.0 million preferred shares of Beacon Electric at a price of Pesos 10 (US$0.22) per share at a total consideration of Pesos 31.1 billion (US$674.0 million), (c) a sale by Piltel of 154.2 million common shares of Meralco to Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million) or Pesos 150 (US$3.25) per share, (d) a subscription by Piltel of 1,156.5 million common shares of Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million) or Pesos 20 (US$0.43) per share and (e) a sale by MPIC of 12,500 common shares of Beacon Electric to Piltel at a consideration of Pesos 12,500 (US$271) or Peso 1 (US$0.02) per share. No gain or loss will be recorded by the Group from these transactions.

In addition, MPIC assigned to Beacon Electric a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by First Philippine Holdings Corporation (FPHC). FPHC granted the call option to Beacon Electric on 1 March 2010 in return for Pesos 3 million (US$0.1 million) consideration. The exercise price for the call option is Pesos 300 (US$6.4) per Meralco share and the call option exercisable at any time from 15 March 2010 to 15 May 2010. On 23 March 2010, the boards of MPIC and Beacon Electric decided to exercise the call option subject to approval by the Company's shareholders on a special general meeting to be held on 30 March 2010. The total consideration of Pesos 22.4 billion (US$485.1 million) will be satisfied by a combination of internal resources and bank borrowings.

41. Comparative Amounts

As explained in Note 2(B), due to the adoption of HKAS 1 (Revised) and HKFRS 8 during the year, the presentation of certain balances has been revised to comply with such changes. In addition, the comparative basic and diluted earnings per share figures have been restated to take into account the effect of a rights issue completed in December 2009. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's accounting treatments and presentation.

42. Approval of the Financial Statements

The Financial Statements were approved and authorized for issue by the Board of Directors on 23 March 2010.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

REPORT ON REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company
Ramon Cojuangco Building
Makati Avenue
Makati City, Philippines

Introduction

We have reviewed the accompanying interim consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries, comprising of the interim consolidated statement of financial position of Philippine Long Distance Telephone Company and Subsidiaries as of June 30, 2010, and the related interim consolidated statements of income, interim consolidated statements of comprehensive income, interim consolidated statements of changes in equity and interim consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these unaudited interim consolidated financial statements in accordance with Philippine Financial Reporting Standards. Our responsibility is to express a conclusion on these unaudited interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and Subsidiaries as of June 30, 2010, and their financial performance and cash flows for the six-month periods ended June 30, 2010 and 2009 in accordance with Philippine Financial Reporting Standards.

We have audited the December 31, 2009 consolidated statement of financial position, presented for comparative purposes, in accordance with Philippine Standards on Auditing, on which we expressed an unqualified opinion in our report dated March 4, 2010.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-2
Tax Identification No. 102-092-270
PTR No. 2087551, January 4, 2010, Makati City

September 14, 2010

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in million pesos, except par value and number of shares)

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
ASSETS		
Noncurrent Assets		
Property, plant and equipment (Notes 3, 9, 20 and 28)	**157,767**	161,256
Investments in associates and joint ventures (Notes 3, 4, 10 and 28)	**22,873**	22,233
Available-for-sale financial assets (Notes 6 and 28)	**130**	134
Investment in debt securities (Notes 11 and 28)	**473**	462
Investment properties (Notes 3, 9, 12 and 28)	**1,098**	1,210
Goodwill and intangible assets (Notes 3, 13, 14, 21 and 28)	**12,904**	13,024
Deferred income tax assets – net (Notes 3, 4, 7 and 28)	**6,522**	7,721
Prepayments – net of current portion (Notes 3, 5, 18, 25, 26 and 28)	**8,247**	8,663
Advances and refundable deposits – net of current portion (Note 28)	**1,281**	1,102
Total Noncurrent Assets	**211,295**	215,805
Current Assets		
Cash and cash equivalents (Notes 15 and 28)	**28,878**	38,319
Short-term investments (Note 28)	**698**	3,824
Trade and other receivables – net (Notes 3, 5, 16, 24 and 28)	**15,415**	14,729
Inventories and supplies (Notes 3, 4, 5, 17 and 28)	**2,561**	2,165
Derivative financial assets (Note 28)	**5**	6
Current portion of prepayments (Notes 18 and 28)	**5,263**	5,098
Current portion of advances and refundable deposits (Note 28)	**201**	202
Total Current Assets	**53,021**	64,343
TOTAL ASSETS	**264,316**	280,148
EQUITY AND LIABILITIES		
Equity		
Preferred stock, Php10 par value per share, authorized - 822,500,000 shares; issued and outstanding - 441,705,092 shares as at June 30, 2010 and 441,631,062 shares as at December 31, 2009 (Notes 8 and 19)	**4,417**	4,416
Common stock, Php5 par value per share, authorized - 234,000,000 shares; issued - 189,480,458 shares and outstanding - 186,797,502 shares as at June 30, 2010; and issued - 189,480,260 shares and outstanding - 186,797,304 shares as at December 31, 2009 (Notes 8 and 19)	**947**	947
Treasury stock - 2,682,956 shares as at June 30, 2010 and December 31, 2009 (Notes 8, 19 and 28)	**(6,405)**	(6,405)
Capital in excess of par value	**62,890**	62,890
Retained earnings (Notes 8 and 19)	**33,040**	37,744
Other comprehensive income (Note 6)	**(931)**	(1,017)
Total Equity Attributable to Equity Holders of PLDT	**93,958**	98,575
Non-controlling interests	**443**	550
TOTAL EQUITY	**94,401**	99,125

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*
(in million pesos, except par value and number of shares)

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 3, 4, 5, 9, 20, 23, 26 and 28)	**82,225**	86,079
Deferred income tax liabilities – net (Notes 3, 4, 7 and 28)	**1,555**	1,321
Derivative financial liabilities (Notes 26 and 28)	**1,361**	2,751
Pension and other employee benefits (Notes 3, 5, 23, 25, 26 and 28)	**1,080**	374
Customers' deposits (Notes 26 and 28)	**2,213**	2,166
Deferred credits and other noncurrent liabilities (Notes 3, 9, 13, 14, 21, 23 and 28)	**13,561**	14,438
Total Noncurrent Liabilities	**101,995**	107,129
Current Liabilities		
Accounts payable (Notes 22, 24, 26 and 28)	**16,704**	19,601
Accrued expenses and other current liabilities (Notes 3, 10, 13, 20, 21, 23, 24, 25, 26, 27 and 28)	**33,659**	35,446
Provision for assessments (Notes 3, 26, 27 and 28)	**1,555**	1,555
Current portion of interest-bearing financial liabilities (Notes 3, 4, 5, 9, 20, 23, 26 and 28)	**11,148**	12,714
Dividends payable (Notes 19, 26 and 28)	**1,852**	1,749
Income tax payable (Notes 7 and 28)	**3,002**	2,829
Total Current Liabilities	**67,920**	73,894
TOTAL LIABILITIES	**169,915**	181,023
TOTAL EQUITY AND LIABILITIES	**264,316**	280,148

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
(in million pesos, except earnings per common share amounts)

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
REVENUES		
Service revenues (Notes 3 and 4)	**72,156**	72,871
Non-service revenues (Notes 3, 4 and 5)	**1,051**	1,207
	73,207	74,078
EXPENSES		
Depreciation and amortization (Notes 3, 4 and 9)	**13,054**	13,133
Compensation and employee benefits (Notes 3, 5 and 25)	**11,247**	11,543
Repairs and maintenance (Notes 12, 17 and 24)	**4,512**	4,247
Selling and promotions	**2,667**	2,839
Cost of sales (Notes 5, 17, 24 and 26)	**2,389**	2,563
Professional and other contracted services (Note 24)	**2,302**	2,094
Rent (Notes 3 and 26)	**2,173**	2,050
Taxes and licenses (Note 27)	**1,303**	1,373
Asset impairment (Notes 3, 4, 5, 9, 16, 17 and 28)	**1,220**	953
Communication, training and travel	**847**	905
Insurance and security services (Note 24)	**553**	643
Amortization of intangible assets (Notes 3 and 14)	**178**	187
Other expenses (Note 24)	**856**	788
	43,301	43,318
	29,906	30,760
OTHER INCOME (EXPENSES)		
Gains (losses) on derivative financial instruments – net (Notes 4 and 28)	**934**	(1,631)
Equity share in net earnings (losses) of associates and joint ventures (Notes 4 and 10)	**881**	(65)
Interest income (Notes 4 and 5)	**612**	900
Foreign exchange losses – net (Notes 4, 9 and 28)	**(59)**	(292)
Financing costs – net (Notes 4, 5, 9, 20 and 28)	**(3,451)**	(3,117)
Other income	**554**	716
	(529)	(3,489)
INCOME BEFORE INCOME TAX (Note 4)	**29,377**	27,271
PROVISION FOR INCOME TAX (Notes 3, 4 and 7)	**7,756**	7,000
NET INCOME FOR THE PERIOD (Note 4)	**21,621**	20,271
ATTRIBUTABLE TO:		
Equity holders of PLDT (Notes 4, 6 and 8)	**21,679**	19,720
Non-controlling interests (Note 4)	**(58)**	551
	21,621	20,271
Earnings Per Share For The Period Attributable to Common Equity Holders of PLDT (Note 8)		
Basic	**114.84**	104.22
Diluted	**114.77**	104.20

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in million pesos)

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
NET INCOME FOR THE PERIOD (Note 4)	**21,621**	20,271
OTHER COMPREHENSIVE INCOME (Note 6)		
Net gains (losses) on available-for-sale financial assets:	**8**	(2)
Gains (losses) from changes in fair value recognized during the period	**6**	(2)
Losses removed from other comprehensive income taken to income	**2**	–
Foreign currency translation differences of subsidiaries	**76**	(154)
Total Other Comprehensive Income	**84**	(156)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**21,705**	20,115
ATTRIBUTABLE TO:		
Equity holders of PLDT	**21,765**	19,558
Non-controlling interests	**(60)**	557
	21,705	20,115

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Stock Options Issued	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Total Equity Attributable to Equity Holders of PLDT	Non-controlling Interests	Total Equity
Balances as at January 1, 2009	**4,415**	**947**	**(4,973)**	**6**	**68,337**	**37,177**	**(378)**	**105,531**	**1,438**	**106,969**
Total comprehensive income for the period (Notes 4, 6 and 8):	–	–	–	–	–	19,720	(162)	19,558	557	20,115
Net income for the period (Notes 4 and 8)	–	–	–	–	–	19,720	–	19,720	551	20,271
Other comprehensive income	–	–	–	–	–	–	(162)	(162)	6	(156)
Cash dividends (Note 19)	–	–	–	–	–	(24,418)	–	(24,418)	(436)	(24,854)
Issuance of capital stock – net of conversion (Note 19)	–	–	–	–	3	–	–	3	–	3
Exercised option shares (Note 25)	–	–	–	(5)	17	–	–	12	–	12
Acquisition of treasury stocks (Notes 8, 19 and 25)	–	–	(1,389)	–	–	–	–	(1,389)	(297)	(1,686)
Business combinations and others (Note 13)	–	–	–	–	–	–	–	–	241	241
Balances as at June 30, 2009 (Unaudited)	**4,415**	**947**	**(6,362)**	**1**	**68,357**	**32,479**	**(540)**	**99,297**	**1,503**	**100,800**
Balances as at January 1, 2010	**4,416**	**947**	**(6,405)**	–	**62,890**	**37,744**	**(1,017)**	**98,575**	**550**	**99,125**
Total comprehensive income for the period (Notes 4, 6 and 8):	–	–	–	–	–	21,679	86	21,765	(60)	21,705
Net income for the period (Notes 4 and 8)	–	–	–	–	–	21,679	–	21,679	(58)	21,621
Other comprehensive income	–	–	–	–	–	–	86	86	(2)	84
Cash dividends (Note 19)	–	–	–	–	–	(26,383)	–	(26,383)	(50)	(26,433)
Issuance of capital stock – net of conversion (Note 19)	1	–	–	–	–	–	–	1	–	1
Acquisition of treasury stocks (Note 2)	–	–	–	–	–	–	–	–	(6)	(6)
Business combinations and others (Note 13)	–	–	–	–	–	–	–	–	9	9
Balances as at June 30, 2010 (Unaudited)	**4,417**	**947**	**(6,405)**	**–**	**62,890**	**33,040**	**(931)**	**93,958**	**443**	**94,401**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in million pesos)

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax (Note 4)	**29,377**	27,271
Adjustments for:		
Depreciation and amortization (Notes 3, 4 and 9)	**13,054**	13,133
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 28)	**2,836**	2,533
Asset impairment (Notes 3, 4, 5, 9, 14, 16, 17 and 28)	**1,220**	953
Incentive plans (Notes 3, 5 and 25)	**694**	882
Accretion on financial liabilities – net (Notes 5, 20 and 28)	**567**	484
Amortization of intangible assets (Notes 3 and 14)	**178**	187
Pension benefit costs (Notes 3, 5 and 25)	**130**	663
Foreign exchange losses – net (Notes 4, 9 and 28)	**59**	292
Gains on disposal of property, plant and equipment (Note 9)	**(39)**	(90)
Interest income (Notes 4 and 5)	**(612)**	(900)
Equity share in net losses (earnings) of associates and joint ventures (Notes 4 and 10)	**(881)**	65
Losses (gains) on derivative financial instruments – net (Notes 4 and 28)	**(934)**	1,631
Others	**(135)**	(22)
Operating income before changes in assets and liabilities	**45,514**	47,082
Decrease (increase) in:		
Trade and other receivables	**(1,934)**	(6,297)
Inventories and supplies	**(247)**	(579)
Prepayments	**85**	(1,258)
Advances and refundable deposits	**(8)**	1,585
Increase (decrease) in:		
Accounts payable	**(2,883)**	(1,869)
Accrued expenses and other current liabilities	**1,856**	3,336
Pension and other employee benefits	**(4,534)**	(418)
Customers' deposits	**47**	10
Other noncurrent liabilities	**(7)**	(69)
Net cash generated from operations	**37,889**	41,523
Income taxes paid	**(6,041)**	(7,175)
Net cash provided by operating activities	**31,848**	34,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Maturity of short-term investments	**3,480**	7,089
Disposal of property, plant and equipment (Note 9)	**92**	709
Disposal of investment properties (Note 12)	**36**	1
Disposal of available-for-sale financial assets	**9**	–
Redemption of investment in debt securities	**–**	3,682
Interest received	**665**	897
Payments for:		
Purchase of subsidiaries – net of cash acquired (Note 13)	**(7)**	(88)
Acquisition of intangibles (Notes 13 and 14)	**(11)**	(18)
Short-term investments	**(346)**	(2,456)
Purchase of investments in associates (Note 10)	**–**	(632)
Purchase of investment in debt securities	**–**	(4,135)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 28)	**(306)**	(374)
Additions to property, plant and equipment (Notes 4 and 9)	**(9,394)**	(10,292)
Decrease in advances and refundable deposits	**9**	133
Net cash used in investing activities	**(5,773)**	(5,484)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued)*
(in million pesos)

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of long-term financing for capital expenditures	**3,451**	5,452
Proceeds from availment of long-term debt (Note 20)	**2,246**	16,911
Proceeds from issuance of capital stock	**1**	13
Payments for acquisition of treasury shares (Notes 8, 19 and 28)	**(6)**	(1,686)
Payments of obligations under finance lease	**(51)**	(15)
Payments of debt issuance costs (Note 20)	**(93)**	(30)
Settlements of derivative financial instruments (Note 28)	**(458)**	(763)
Payments of notes payable (Note 20)	**(2,093)**	–
Interest paid – net of capitalized portion (Notes 5, 20 and 28)	**(2,929)**	(2,564)
Settlement of long-term financing for capital expenditures	**(3,497)**	(3,903)
Payments of long-term debt (Note 20)	**(5,836)**	(11,754)
Cash dividends paid (Note 19)	**(26,330)**	(24,752)
Proceeds from notes payable (Note 20)	**–**	2,000
Net cash used in financing activities	**(35,595)**	(21,091)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**79**	35
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,441)**	7,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**38,319**	33,684
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**28,878**	41,492

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Company Limited, or First Pacific, through its Philippine and other affiliates, collectively the First Pacific Group, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or NTT DoCoMo, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT's outstanding common stock as at June 30, 2010. NTT Communications and NTT DoCoMo are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. First Pacific Group had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at June 30, 2010.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". As at June 30, 2010, there were approximately 49 million ADSs outstanding.

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

We are the leading telecommunications service provider in the Philippines. Through our 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.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our unaudited consolidated financial statements as at June 30, 2010 and for the six-month periods ended June 30, 2010 and 2009 for inclusion in the offering circular related to the proposed bond offering by FPT Finance Limited, a wholly-owned special purpose vehicle of First Pacific Company Limited, and as guaranteed by First Pacific Company Limited, were reviewed and authorized for issuance by the Audit Committee on September 14, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared under the historical cost basis except for derivative financial instruments, available-for-sale financial assets and investment properties that have been measured at fair value.

Our consolidated financial statements include, in our opinion, adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results of operations that may be expected for the full year.

Our financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million except when otherwise indicated.

Basis of Consolidation

Our unaudited consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group") as at June 30, 2010:

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 System, Inc., or PDSI	Philippines	Cellular and internet broadband distribution services	–	100.0
I-Contacts Corporation, or I-Contacts	Philippines	Customer interaction solutions	–	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	Development and sale of software, maintenance and support services	–	100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company	–	100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing	–	100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms	–	100.0
Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	–	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	–	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	–	100.0
Connectivity Unlimited Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services	–	100.0
PLDT Communications and Energy Ventures, Inc., or PCEV, (formerly known as Pilipino Telephone Corporation, or Piltel) and Subsidiaries, or PCEV Group*	Philippines	Investment company	–	99.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company	–	100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	–	85.0
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector	–	51.0
Telesat, Inc., or Telesat	Philippines	Satellite communications services	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite	Philippines	Satellite communications services	67.0	–
Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	100.0	–
Smart-NTT Multimedia, Inc., or SNMI	Philippines	Data and network services	100.0	–

Name of Subsidiary	Place of Incorporation	Principal Business Activity	Percentage of Ownership Direct	Indirect
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 interaction solutions and IT-related services	100.0	–
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions	–	100.0
ePLDT Ventus, Inc., or Ventus**	Philippines	Customer interaction solutions	–	100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet access services	–	99.6
BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or BayanTrade Group	Philippines	Internet-based purchasing, IT consulting and professional services	–	93.5
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet access services	–	75.0
netGames, Inc., or netGames	Philippines	Publisher of online games	–	57.8
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games	–	57.8

* *On August 17, 2009, Smart acquired the cellular mobile telephone business of PCEV.*
*******On April 8, 2010, Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ, were merged wherein Ventus became the surviving entity.*

Basis of Consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

PCEV's Share Buyback Program

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 June 30, 2010, approximately 3.6 million shares at a cost of Php29.8 million have been repurchased under the third buyback program.

As at June 30, 2010, cumulative shares repurchased under the share buyback programs totaled approximately 86.6 million at an aggregate cost of Php620 million, which reduced the amount of non-controlling interests for the same amount.

Corporate Merger of Vocativ, Parlance and Ventus

On June 26, 2009, ePLDT's Board of Directors approved the plan for merger of its wholly-owned subsidiaries, Vocativ and Parlance, as the absorbed companies, and Ventus, as the surviving entity. The Articles and Plan of Merger was approved by the Philippine Securities and Exchange Commission, or Philippine SEC, on April 8, 2010. The merger did not have any impact on the consolidated financial statements of PLDT Group.

Statement of Compliance

Our consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policies and Disclosures

Our accounting policies are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to existing PFRSs and new interpretation as at January 1, 2010:

- *Amendment to PFRS 2, Share-based Payment;*
- *Improvements to PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations;*
- *Amendment to PAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items;*
- *Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners;* and
- *Improvements to PFRSs (2009)*

Our adoption of such amendments and improvements to existing PFRSs and new interpretation did not have any effect on our financial position and performance.

The principal effects of these changes are as follows:

Amendment to PFRS 2, Share-based Payment. The amendments clarify how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. It further states that an entity that receives goods or services in a share-based payment arrangement must account for these goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled.

Improvements to PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations. When a subsidiary is held for sale, all of its assets and liabilities will be classified as held-for-sale under *PFRS 5*, even when the entity retains a non-controlling interest in the subsidiary after the sale.

Amendment to PAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items. Amendment to *PAS 39* addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners. This interpretation provides guidance on non-reciprocal distribution of assets by an entity to its owners acting in their capacity as owners, including distributions of non-cash assets and those giving the shareholders a choice of receiving non-cash assets or cash, provided that: (a) all owners of the same class of equity instruments are treated equally; and (b) the non-cash assets distributed are not ultimately controlled by the same party or parties both before and after the distribution, and as such, excluding transactions under common control.

Improvements to PFRSs

The Financial Reporting Standards Council approved in its meeting in May 2009 the adoption of Improvements to International Financial Reporting Standards issued by the International Accounting Standards Board in April 2009. There are separate transitional provisions for each standard which are all effective beginning January 1, 2010.

- ***PFRS 2, Share-based Payment.*** The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of *PFRS 2* even though they are out of scope of Revised *PFRS 3*.

- ***PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations.*** The amendment clarifies that the disclosures required in respect of noncurrent assets or disposal groups classified as held for sale or discontinued operations are only those set out in *PFRS 5*. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

  It also clarifies that the general requirements of *PAS 1, Presentation of Financial Statements,* still apply, particularly paragraphs 15 (to achieve fair presentation) and 125 (sources of estimation and uncertainty) of *PAS 1*.

- ***PFRS 8, Operating Segments.*** The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- ***PAS 1, Presentation of Financial Statements.*** The terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- ***PAS 7, Statement of Cash Flows.*** The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- ***PAS 17, Leases.*** The amendment removes the specific guidance on classifying land as lease so that only the general guidance remains.

- ***PAS 36, Impairment of Assets.*** The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in *PFRS 8*, before aggregation for reporting purposes.

- ***PAS 38, Intangible Assets.*** The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- ***PAS 39, Financial Instruments: Recognition and Measurement.*** The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The amendment also clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken. It also clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- ***Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives.*** The improvement clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- ***Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation.*** The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of *PAS 39* that relate to a net investment hedge, are satisfied.

The adoption of amendments and improvements to existing PFRSs and a new interpretation that require retrospective restatement had no impact on our comparative consolidated statement of financial position.

Significant Accounting Policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with *PAS 39* either in profit or loss or as charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as capital in excess of par. The income statement reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had under common control.

Investments in Associates

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, an investment in an associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects our share in the results of operations of our associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statement of comprehensive income and changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

Our share in the profit and losses of our associates is shown on the face of our consolidated income statement. This is the profit or losses attributable to equity holders of the associate and therefore is profit or losses after tax and net of non-controlling interest in the subsidiaries of the associates.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. Where necessary, adjustments are made to bring such accounting policies in line with those of PLDT Group.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of our investment in the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retaining investment at its fair value. Any difference between the carrying amounts of our investment in the associate upon loss of significant influence, and the fair value of the remaining investment and proceeds from disposal, is recognized in profit or loss.

Investments in Joint Ventures

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of PLDT Group.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between PLDT and our jointly controlled entity. The joint venture is carried at equity method until the date on which we cease to have joint control over the jointly controlled entity.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control, and the fair value of the remaining investment and proceeds from disposal, is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in the PLDT Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SCH, SGP, 3rd Brand, BOW, SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, certain subsidiaries of Chikka, and certain subsidiaries of BayanTrade) is the Philippine peso.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; and Singapore dollar for SCH, SGP, 3rd Brand, BOW, and certain subsidiaries of BayanTrade. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries are recognized in our consolidated income statement.

Foreign exchange gains or losses of PLDT and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the period such exchange gains or losses are realized.

Financial Assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, reevaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Our financial assets include cash and cash equivalents, short-term investments, trade and other receivables, quoted and unquoted equity and debt securities, advances and refundable deposits, and derivative financial assets.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial assets. Interest earned and dividends received from investment at fair value through profit or loss are recognized in our consolidated income statement under "Interest income" and "Other income", respectively.

Financial assets may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different bases; (ii) the assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain one or more embedded derivatives that would need to be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate, or EIR, method. This method uses an EIR that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when we have the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income account is recognized in our consolidated income statement; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income account is recognized in our consolidated income statement. Interest earned on holding available-for-sale debt securities are included under "Interest income" using the EIR in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right of the payment has been established. These financial assets are included under noncurrent assets unless we intend to dispose of the investment within 12 months of the end of the reporting period.

Financial Liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of directly attributable transaction costs.

Our financial liabilities include accounts payable, accrued expenses and other current liabilities, interest-bearing financial liabilities, customers' deposits, derivative financial liabilities, dividends payable, and accrual for long-term capital expenditures.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of repurchasing in the near term. Derivative liabilities, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit and loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain one or more embedded derivatives that would need to be separately recorded.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest rate.

Day 1 profit or loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique which variables include only data from observable market, we recognize the difference between the transaction price and fair value (a Day 1 profit or loss) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the Day 1 profit or loss amount.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its original amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial assets

For available-for-sale financial assets, we assess at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income account is reclassified from other comprehensive income account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income account.

In the case of debt instruments classified as available-for-sale financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred the rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative Financial Instruments and Hedging

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps, to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined using applicable valuation techniques. See *Note 28 – Financial Assets and Liabilities*.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is neither attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in our statement of comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Cost includes the cost of replacing part of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in our consolidated income statement as incurred. The present value of the expected cost of the decommissioning of the asset after use is included in the cost of the respective assets if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is derecognized.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment are disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which have been determined based on the latest valuations performed by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the period in which they arise. Where an entity is unable to determine the fair value of an investment properties under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the period of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If an owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite useful life.

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the period in which the expenditures are incurred.

Research and Development Costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when we can demonstrate: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) our intention to complete and our ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost incurred in bringing each items of inventories and supplies to its present location are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business less the estimated cost to sell or determining the prevailing replacement costs.

Impairment of Non-Financial Assets

Property, plant and equipment

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multipliers, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of the cash-generating unit, or group of cash-generating units, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If there is incomplete allocation of goodwill acquired in a business combination to cash generating units, or group of cash generating units, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the EIR method. Interest earned from these securities is recognized as "Interest income" in our consolidated income statement.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition, and for which there is an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from the date of acquisition.

Trade and Other Receivables

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in our consolidated income statement.

When a trade and other receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in our consolidated income statement.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, and overseas communication tax where applicable. We provide wireless communication, fixed line communication, and ICT services to our subscribers and customers. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service has occurred. In certain circumstances, revenue is split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transactions. The value of components is determined using verifiable objective evidence. Under certain arrangements where the above criteria are met, but 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 do not provide our customers with the right to a refund. The following specific recognition criteria must also be met before revenue is recognized:

Service Revenues

Subscriptions

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular services. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro-rata basis.

Air time, traffic and VAS

Prepaid service revenues collected in advance are deferred and recognized based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit, and network usage are recognized in the period the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for calls terminating in their territories. Revenues related to products and VAS are recognized upon delivery of the product or service.

Knowledge processing solutions and customer interaction solutions

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue are recorded as advances from customers and presented as a liability in our consolidated statement of financial position. If the fee is not measurable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

Incentives

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction of revenue. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Our wireless segment operates two loyalty points programmes, one for *Smart Money* cardholders and another for subscribers of *Smart Gold, Smart Buddy* and *SmartBro*. The loyalty programme for *Smart Money* allows cardholders, upon enrollment, to accumulate points when they use their card for purchases, *Smart Load* payments, and reloads for Smart's prepaid cards, *SmartBro* prepaid Airtime and *Smart Money Cash Load*. The points for the programme can then be redeemed for airtime or load wallet. On the other hand, the loyalty programme for Smart's cellular and broadband subscribers allows postpaid subscribers to accumulate points for billed transactions and prepaid subscribers for reloads or top-ups and VAS, and international direct dialing usage and tenure in the network for both postpaid and prepaid subscribers. The points for the loyalty programme for the subscribers can then be redeemed, upon registration, for bill rebates, discounts on cellular phonekit purchases, on-network short messaging services or internet surf time. Redemption for both programmes are subject to a minimum number of points being required. Consideration received is allocated between the services sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued are deferred and recognized as revenue when the points are redeemed.

Non-service Revenues

Handset and equipment sales

Sale of cellular handsets and communication equipment are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the EIR. The majority of interest income represents interest earned from cash and cash equivalents, short-term investments and investment in debt securities.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize provision when we have present obligation, legal or constructive, as a result of past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Retirement Benefits

Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds), less past service cost and actuarial gains and losses not yet recognized, and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets that are held by a long-term employee benefit fund and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service cost and actuarial gains and losses not yet recognized, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution plans

Smart and I-Contacts record expenses for their contribution to the defined contribution plans when the employee renders service to Smart and I-Contacts, respectively, essentially coinciding with their cash contributions to the plans.

Other Long-Term Employee Benefits

Our liability arising from 2010 to 2012 Long-term Incentive Plan, or 2010 to 2012 LTIP, are determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning comployees' projected salaries. Employee benefit costs include current service cost, interest cost, actuarial gains and losses and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long-term employee benefit liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds) at the end of the reporting period.

Share-Based Payment Transactions

Cash-settled transactions

Our 2007 to 2009 LTIP grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the 2007 to 2009 LTIP, we recognize the services we receive from our 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 for the period.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the agreement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

As a Lessor. Leases where we retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Rental income is recognized in our consolidated income statement on a straight-line basis over the lease term.

All other leases are classified as finance leases. At the inception of the finance lease, the asset subject to lease agreement is derecognized and lease receivable is recognized. Interest income is accrued over the lease term.

As a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in our consolidated income statement on a straight-line basis over the lease term. All other leases are classified as finance leases.

A finance lease gives rise to the recognition of a leased asset and finance lease liability. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term. Interest expense is recognized over the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefit of unused tax credits and unused tax losses can be utilized except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post quarter-end events that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Equity

Preferred and common stock are measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction and any impact is presented as part of capital in excess of par value.

Retained earnings represent our net accumulated earnings less cumulative dividends declared.

Other comprehensive income comprise items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRS.

Non-controlling interests represent the equity interests in MKTC, DGCI, BOW, PCEV, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, netGames, Chikka, BayanTrade and Infocom not held directly by PLDT or indirectly through one of our subsidiary.

New Accounting Standards and Interpretations to Existing Standards Effective Subsequent to June 30, 2010

We will adopt the following revised standards and interpretations enumerated below when these become effective. All of these standards have already been approved by the Financial Reporting Standards Council but has yet to be approved by the Board of Accountancy of the Professional Regulations Commission, with the exception of *Philippine Interpretation IFRIC 15, Agreements for Construction of Real Estate.* Except as otherwise indicated, we do not expect the adoption of these revised standards and amendments to PFRS to have a significant impact on our consolidated financial statements.

Effective 2011

Revised PAS 24, Related Party Disclosures. The standard has been revised to simplify the identification of related party relationship and re-balance the extent of disclosures of transactions between related parties based on the costs to preparers and the benefits to users in having this information available in consolidated financial statements. Also, the revised standard provides a partial exemption from the disclosure requirements for government-related entities. This interpretation is applied retrospectively and is applicable for annual periods beginning on or after January 1, 2011.

Amendment to PAS 32, Classification of Rights Issues. The definition of a financial liability in the standard has been amended to classify right issues (and certain options or warrants) as equity instruments if: (a) the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, and (b) the instruments are used to acquire fixed number of the entity's own equity instruments for a fixed amount in any currency. This standard is applied retrospectively and is applicable for annual periods beginning on or after February 1, 2010.

Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement. The interpretation has been amended to permit an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment should be applied to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation. This interpretation is applied retrospectively and is applicable for annual periods beginning on or after January 1, 2011.

Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instrument. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. This interpretation is applied retrospectively and is applicable for annual periods beginning on or after July 1, 2010 from the beginning of the earliest comparative period presented.

Effective 2012

Philippine Interpretation IFRIC 15, Agreements for Construction of Real Estate. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under *PAS 11*, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Effective 2013

PFRS 9, Financial Instruments: Classification and Measurement (Phase I). Phase I introduces new requirements for classifying and measuring financial assets. Other phases are currently being deliberated to expand *PFRS 9* to include classifications and measurement of financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. The objective is to replace *PAS 39* in its entirety by the end of 2010.

PFRS 9 (Phase I) is applicable to all financial assets within the scope of *PAS 39*. At initial recognition, all financial assets (including hybrid contracts with a financial asset host) are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequent to initial recognition, financial assets that are debt instruments are classified at amortized cost or fair value on the basis of both: (a) the entity's business model for managing the financial assets; and (b) the contractual cash flow characteristic of the financial asset. Debt instrument may be subsequently measured at amortized cost if: (a) the asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows; and (b) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value.

All financial assets that are equity investments are measured at fair value either through other comprehensive income or profit or loss. This is an irrevocable choice the entity makes by instrument unless the equity investments are held for trading, in which case, they must be measured at fair value through profit or loss.

This standard is applied retrospectively and is applicable for annual periods beginning on or after January 1, 2013 with certain exceptions and requires comparative figures to be restated. Earlier application is permitted.

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3. Management's Use of Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the 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 periods.

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 *PAS 17* 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 Php2,173 million and Php2,050 million for the six months ended June 30, 2010 and 2009, respectively. Total finance lease obligations as at June 30, 2010 and December 31, 2009 amounted to Php17 million and Php64 million, respectively. See *Note 20 – Interest-bearing Financial Liabilities, Note 26 – Contractual Obligations and Commercial Commitments* and *Note 28 – Financial Assets and Liabilities*.

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

Under *PAS 28, Investments in Associates*, significant influence must be present and currently exercisable over an investee to account 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.

On March 30, 2010, following the transfer of PCEV's Meralco shares to Beacon Electric Asset Holdings, Inc., or Beacon, PCEV's direct ownership in Meralco was reduced to approximately 6% from approximately 20%. Beacon is a jointly controlled entity of PCEV and Metro Pacific Investment Company, or 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 has three out of 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 President of PCEV. On this basis, PCEV believes it has retained significant influence over Meralco despite having less than 20% ownership interest. See *Note 10 – Investments in Associates and Joint Ventures*.

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 period are discussed as follows:

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the 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, intangible assets and other noncurrent assets, requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires us to make estimates and assumptions that can materially affect our consolidated financial statements. Future events could cause us to conclude that property, plant and equipment, investments, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) for the six months ended June 30, 2010 and 2009 amounted to Php1,220 million and Php953 million, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 10 – Investments in Associates and Joint Ventures*.

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,* respectively.

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 operating expenses and decrease our noncurrent assets.

The total depreciation and amortization of property, plant and equipment amounted to Php13,054 million and Php13,133 million for the six months ended June 30, 2010 and 2009, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php157,767 million and Php161,256 million as at June 30, 2010 and December 31, 2009, respectively. See *Note 4 – Operating Segment Information* and *Note 9 – Property, Plant and Equipment*.

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 are annually performed every December 31.

Total carrying values of our investment properties as at June 30, 2010 and December 31, 2009 amounted to Php1,098 million and Php1,210 million, respectively. See *Note 12 – Investment Properties*.

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 period 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. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in our consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect our financial performance.

Intangible assets acquired from business combination with finite lives are amortized over the 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 Php178 million and Php187 million for the six months ended June 30, 2010 and 2009, respectively. Total carrying values of goodwill and intangible assets as at June 30, 2010 and December 31, 2009 amounted to Php12,904 million and Php13,024 million, respectively. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 – Goodwill and Intangible Assets*.

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 it is 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 and some of its subsidiaries' projected gross margin, they expect to use the OSD method in the foreseeable future.

Based on the above assessment, our consolidated unrecognized deferred income tax assets due to insufficient taxable income as at June 30, 2010 and December 31, 2009 amounted to Php1,244 million and Php1,236 million, respectively. In addition, as at June 30, 2010 and December 31, 2009, our unrecognized net deferred income tax assets for items which would not result to future tax consequences when using the OSD method amounted to Php3,300 million and Php3,296 million, respectively. Total consolidated provision for deferred income tax amounted to Php1,440 million and Php504 million for the six months ended June 30, 2010 and 2009, respectively. Total consolidated net deferred income tax assets as at June 30, 2010 and December 31, 2009 amounted to Php6,522 million and Php7,721 million, respectively, while total consolidated net deferred income tax liabilities as at June 30, 2010 and December 31, 2009 amounted to Php1,555 million and Php1,321 million, respectively. See *Note 4 – Operating Segment Information* and *Note 7 – Income Tax*.

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 reevaluated 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 Php1,068 million and Php910 million for the six months ended June 30, 2010 and 2009, respectively. Trade and other receivables, net of asset impairment, amounted to Php15,415 million and Php14,729 million as at June 30, 2010 and December 31, 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*.

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 and unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies recognized for the six months ended June 30, 2010 and 2009 amounted to Php33 million and Php43 million, respectively. The carrying values of inventories and supplies amounted to Php2,561 million and Php2,165 million as at June 30, 2010 and December 31, 2009, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 17 – Inventories and Supplies*.

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* 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 for the six months ended June 30, 2009 amounted to Php882 million. As at December 31, 2009, outstanding 2007 to 2009 LTIP liability amounted to Php4,582 million, which was paid 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*.

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*. 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 Php130 million and Php663 million for the six months ended June 30, 2010 and 2009, respectively. Unrecognized net actuarial loss as at June 30, 2010 and December 31, 2009 amounted to Php2,463 million and Php2,474 million, respectively. As at June 30, 2010 and December 31, 2009, the prepaid benefit costs amounted to Php5,344 million and Php5,414 million. As at June 30, 2010 and December 31, 2009, the accrued benefit costs amounted to Php369 million and Php359 million, respectively. See *Note 5 – Income and Expenses, Note 18 – Prepayments* and *Note 25 – Share-based Payments and Employee Benefits*.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the Executive Compensation Committee, or ECC, and Board of Directors, and is based on profit targets with the Performance Cycle. The cost of 2010 to 2012 LTIP is determined using the projected unit credit method based on assumed 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 monthly. Total outstanding liability and fair value of 2010 to 2012 LTIP cost for the six month ended June 30, 2010 amounted to Php694 million. *Note 25 – Share-based Payments and Employee Benefits*.

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,278 million and Php1,204 million as at June 30, 2010 and December 31, 2009, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings. 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*.

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, there is no assurance that 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 and recognized when the related components are delivered in order to reflect the substance of the transaction. The fair value of components is determined using verifiable objective evidence.

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 as at June 30, 2010 amounted to Php46,555 million and Php155,158 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2009 amounted to Php58,225 million and Php165,063 million, respectively. See *Note 28 – Financial Assets and Liabilities*.

4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and have three reportable operating segments as follows:

- Wireless – wireless telecommunications services provided through our cellular service providers namely, Smart, PCEV (on August 17, 2009, Smart acquired the cellular business of PCEV) and CURE; SBI, BOW, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and Mabuhay Satellite and ACeS Philippines, our satellite operators;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries ClarkTel, SubicTel, Philcom, 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 interaction solutions provided by Ventus, (on April 8, 2010, Ventus, Parlance and Vocativ were merged wherein Ventus 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*.

The chief operating decision maker and management monitor the operating results of each business unit separately for purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income for the period; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income for the period is measured consistent with consolidated net income in the consolidated financial statements.

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 nonrecurring gains (losses) – net.

EBITDA margin pertains to EBITDA divided by service revenues.

Core income for the period is measured as net income attributable to equity holders of PLDT, excluding foreign exchange gains (losses) – net, gains (losses) on derivative financial instruments – net, excluding hedge cost, asset impairment on noncurrent assets, other nonrecurring gains (losses), net of tax effect of aforementioned adjustments, as applicable, and similar adjustments to equity share in net earnings (losses) of associates and joint ventures.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The segment revenues, net income for the period, assets, liabilities, and other segment information of our reportable operating segments are as follows:

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
As at and for the six months ended June 30, 2010 (Unaudited)					
Revenues					
External customer:	48,256	20,128	4,823	–	73,207
Service revenues	47,511	19,948	4,697	–	72,156
Non-service revenues (Note 5)	745	180	126	–	1,051
Inter-segment transactions:	365	5,289	674	(6,328)	–
Service revenues	365	5,289	565	(6,219)	–
Non-service revenues	–	–	109	(109)	–
Total revenues	48,621	25,417	5,497	(6,328)	73,207
Results					
Depreciation and amortization (Notes 3 and 9)	6,781	5,896	377	–	13,054
Asset impairment (Notes 3, 5, 9, 16, 17 and 28)	346	836	38	–	1,220
Equity share in net earnings of associates and joint ventures (Note 10)	784	–	97	–	881
Interest income (Note 5)	354	252	16	(10)	612
Financing costs – net (Notes 5, 9, 20 and 28)	1,344	2,029	88	(10)	3,451
Provision for (benefit from) income tax (Notes 3 and 7)	6,051	1,724	(19)	–	7,756
Net income for the period / Segment profit for the period	16,766	4,550	305	–	21,621
EBITDA for the period	29,704	12,668	756	129	43,257
EBITDA margin for the period	62%	50%	14%	–	60%
Core income for the period	17,133	3,753	344	–	21,230

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
Assets and liabilities					
Operating assets	105,160	191,976	16,049	(78,264)	234,921
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	21,987	–	886	–	22,873
Deferred income tax assets – net (Notes 3, 7 and 28)	191	6,134	197	–	6,522
Total assets	127,338	198,110	17,132	(78,264)	264,316
Operating liabilities	82,936	101,315	4,166	(20,057)	168,360
Deferred income tax liabilities – net (Notes 3, 7 and 28)	929	22	286	318	1,555
Total liabilities	83,865	101,337	4,452	(19,739)	169,915
Other segment information					
Capital expenditures (including capitalized interest)	5,000	4,479	221	–	9,700
As at December 31, 2009 (Audited) and for the six months ended June 30, 2009 (Unaudited)					
Revenues					
External customer:	48,719	20,529	4,830	–	74,078
Service revenues	47,823	20,398	4,650	–	72,871
Non-service revenues (Note 5)	896	131	180	–	1,207
Inter-segment transactions:	253	5,019	623	(5,895)	–
Service revenues	253	5,019	563	(5,835)	–
Non-service revenues	–	–	60	(60)	–
Total revenues	48,972	25,548	5,453	(5,895)	74,078
Results					
Depreciation and amortization (Notes 3 and 9)	6,520	6,227	386	–	13,133
Asset impairment (Notes 3, 5, 9, 16, 17 and 28)	446	502	5	–	953
Financing costs – net (Notes 5, 9, 20 and 28)	1,203	1,861	68	(15)	3,117
Interest income (Note 5)	665	236	14	(15)	900
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(70)	(46)	51	–	(65)
Provision for income tax (Notes 3 and 7)	5,863	1,095	42	–	7,000
Net income for the period / Segment profit for the period	17,437	2,832	2	–	20,271
EBITDA for the period	30,209	13,279	512	80	44,080
EBITDA margin for the period	63%	52%	10%	–	60%
Core income for the period	16,939	3,913	(14)	–	20,838
Assets and liabilities					
Operating assets	107,880	206,385	16,297	(80,368)	250,194
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	21,440	–	793	–	22,233
Deferred income tax assets – net (Notes 3, 7 and 28)	187	7,346	188	–	7,721
Total assets	129,507	213,731	17,278	(80,368)	280,148
Operating liabilities	96,194	111,294	4,574	(32,360)	179,702
Deferred income tax liabilities – net (Notes 3, 7 and 28)	640	21	328	332	1,321
Total liabilities	96,834	111,315	4,902	(32,028)	181,023
Other segment information					
Capital expenditures (including capitalized interest)	5,345	5,080	241	–	10,666

The following table shows the reconciliation of our consolidated EBITDA to consolidated net income:

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Consolidated EBITDA	**43,257**	44,080
Amortization of intangible assets (Notes 3 and 14)	**(178)**	(187)
Depreciation and amortization (Notes 3 and 9)	**(13,054)**	(13,133)
Asset impairment:		
Trade and other receivables (Notes 3, 5 and 16)	**(1,068)**	(910)
Investments in associates and joint ventures (Notes 3, 5 and 10)	**(78)**	–
Inventories and supplies (Notes 3, 5 and 17)	**(33)**	(43)
Property, plant and equipment (Notes 3, 5 and 9)	**(12)**	–
Prepayments and others (Notes 3, 5, 18 and 26)	**(29)**	–
Consolidated operating profit for the period	**28,805**	29,807
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	**881**	(65)
Gains (losses) on derivative financial instruments – net (Note 28)	**934**	(1,631)
Interest income (Note 5)	**612**	900
Foreign exchange losses – net (Notes 9 and 28)	**(59)**	(292)
Financing costs – net (Notes 5, 9, 20 and 28)	**(3,451)**	(3,117)
Other nonrecurring gains – net	**1,655**	1,669
Consolidated income before income tax	**29,377**	27,271
Provision for income tax (Notes 3 and 7)	**7,756**	7,000
Consolidated net income for the period	**21,621**	20,271

The following table shows the reconciliation of our consolidated core income to our consolidated net income:

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Consolidated core income for the period	**21,230**	20,838
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Note 28)	**1,189**	(1,306)
Foreign exchange losses – net (Notes 9 and 28)	**(59)**	(292)
Asset impairment on noncurrent assets	**(115)**	–
Adjustment on equity share in net earnings of associates and joint ventures	**(227)**	–
Net tax effect of aforementioned adjustments	**(339)**	480
Net income for the period attributable to equity holders of PLDT (Note 8)	**21,679**	19,720
Net income (loss) for the period attributable to non-controlling interests	**(58)**	551
Consolidated net income for the period	**21,621**	20,271

The following table presents our revenues for the period from external customers by category of products and services:

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Wireless services		
Service revenues:		
Cellular	**43,711**	44,556
Broadband	**3,203**	2,518
Satellite and others	**597**	749
	47,511	47,823
Non-service revenues:		
Sale of cellular handsets, cellular SIM-packs and broadband data modems	**745**	896
Total wireless revenues	**48,256**	48,719

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Fixed line services		
Services revenues:		
Local exchange	**7,710**	7,777
International long distance	**2,686**	3,194
National long distance	**2,331**	3,161
Data and other network	**7,057**	6,056
Miscellaneous	**164**	210
	19,948	20,398
Non-service revenues:		
Sale of computers	**180**	131
Total fixed line revenues	**20,128**	20,529
ICT services		
Service revenues:		
Knowledge processing solutions	**2,502**	2,519
Customer interaction solutions	**1,276**	1,367
Internet and online gaming	**505**	528
Data center and others	**414**	236
	4,697	4,650
Non-service revenues:		
Point-product-sales	**126**	180
Total ICT revenues	**4,823**	4,830
Total products and services from external customers	**73,207**	74,078

Disclosure of the geographical distribution of our revenues from external customers and the geographical location of our total assets are not provided since the majority of our consolidated revenues are derived from our operations within the Philippines.

In each of the six months ended June 30, 2010 and 2009, no revenue transactions with a single external customer accounted for 10% or more of our consolidated revenues from external customers.

5. Income and Expenses

Non-service Revenues

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	**925**	1,027
Point-product-sales	**126**	180
(Note 4)	**1,051**	1,207

Compensation and Employee Benefits

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Salaries and other employee benefits	**10,297**	9,900
Incentive plans (Notes 3 and 25)	**694**	882
Pension benefit costs (Notes 3 and 25)	**130**	663
Manpower rightsizing program	**126**	98
	11,247	11,543

Cost of Sales

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs sold and broadband data modems	**2,114**	2,256
Cost of point-product-sales	**210**	222
Cost of satellite air time and terminal units (Notes 24 and 26)	**65**	85
	2,389	2,563

Asset Impairment

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Trade and other receivables (Notes 3 and 16)	**1,068**	910
Investments in associates and joint ventures (Notes 3 and 10)	**78**	–
Inventories and supplies (Notes 3 and 17)	**33**	43
Property, plant and equipment (Notes 3 and 9)	**12**	–
Prepayments and others	**29**	–
(Note 4)	**1,220**	953

Interest Income

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Interest income on other loans and receivables	**580**	805
Interest income on fair value through profit or loss	**17**	66
Interest income on held-to-maturity investments	**15**	29
(Note 4)	**612**	900

Financing Costs – net

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Interest on loans and other related items (Notes 20 and 28)	**3,142**	2,907
Accretion on financial liabilities – net (Notes 20 and 28)	**567**	484
Financing charges	**48**	100
Capitalized interest (Note 9)	**(306)**	(374)
(Note 4)	**3,451**	3,117

Interest expense for short-term borrowings for the six months ended June 30, 2010 and 2009 amounted to Php8 million and Php18 million, respectively.

6. Other Comprehensive Income

The movements of other comprehensive income under equity of our consolidated statements of financial position are as follows:

	Foreign currency translation	Available-for-sale financial assets	Total
		(in million pesos)	
Balance at January 1, 2009	(401)	23	(378)
Other comprehensive income for the period	(160)	(2)	(162)
Balance as at June 30, 2009 (Unaudited)	**(561)**	**21**	**(540)**
Balance at January 1, 2010	(1,043)	26	(1,017)
Other comprehensive income for the period	78	8	86
Balance as at June 30, 2010 (Unaudited)	**(965)**	**34**	**(931)**

7. Income Tax

The net components of consolidated deferred income tax assets (liabilities) recognized in our consolidated statements of financial position are as follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets	**6,522**	7,721
Net deferred income tax liabilities	**(1,555)**	(1,321)

The components of our consolidated net deferred income tax assets (liabilities) are as follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Net deferred income tax assets:		
Accumulated provision for doubtful accounts	**2,935**	2,708
Unearned revenues	**2,892**	3,412
Unamortized past service pension costs	**2,762**	2,974
Unrealized foreign exchange losses	**1,228**	1,291
Provision for impaired assets	**775**	767
Derivative financial instruments	**408**	825
Accumulated write-down of inventories to net realizable values	**291**	293
NOLCO	**132**	44
Asset impairment	**32**	24
MCIT	**22**	21
Capitalized taxes and duties – net of amortization	**(216)**	(246)
Capitalized foreign exchange differential – net of depreciation	**(430)**	(495)
Pension and other employee benefits	**(1,458)**	(891)
Undepreciated capitalized interest charges	**(2,822)**	(2,976)
Others	**(29)**	(30)
	6,522	7,721

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Net deferred income tax liabilities:		
Unearned revenues	**563**	1,047
Pension and other employee benefits	**9**	100
Fair value adjustment on fixed assets	**(318)**	(332)
Intangible assets and fair value adjustments on assets acquired – net of amortization	**(444)**	(478)
Undepreciated capitalized interest charges	**(592)**	(536)
Unrealized foreign exchange gains	**(809)**	(879)
Others	**36**	(243)
	(1,555)	(1,321)

Movements of our consolidated net deferred income tax assets (liabilities) are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Net deferred income tax assets – balance at beginning of period	**7,721**	9,605
Net deferred income tax liabilities – balance at beginning of period	**(1,321)**	(1,288)
Net balance at beginning of period	**6,400**	8,317
Provision for deferred income tax	**(1,440)**	(656)
Business combinations (Note 13)	**–**	(349)
Excess MCIT deducted against RCIT due	**–**	(766)
Others	**7**	(146)
Net balance at end of period	**4,967**	6,400
Net deferred income tax assets – balance at end of period (Notes 3, 4 and 28)	**6,522**	7,721
Net deferred income tax liabilities – balance at end of period (Notes 3, 4 and 28)	**(1,555)**	(1,321)

The analysis of our consolidated net deferred income tax assets are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	**7,948**	9,565
Deferred income tax assets to be recovered within 12 months	**3,690**	3,605
	11,638	13,170
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after more than 12 months	**(4,091)**	(4,793)
Deferred income tax liabilities to be settled within 12 months	**(1,025)**	(656)
	(5,116)	(5,449)
Net deferred income tax assets (Notes 3, 4 and 28)	**6,522**	7,721

The analysis of our consolidated net deferred income tax liabilities are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	**621**	1,161
Deferred income tax assets to be recovered within 12 months	**2**	20
	623	1,181
Deferred income tax liabilities:		
Deferred income tax liabilities to be settled after more than 12 months	**(2,004)**	(2,289)
Deferred income tax liabilities to be settled within 12 months	**(174)**	(213)
	(2,178)	(2,502)
Net deferred income tax liabilities (Notes 3, 4 and 28)	**(1,555)**	(1,321)

Provision for corporate income tax for the period consists of:

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Current	**6,316**	6,496
Deferred	**1,440**	504
	7,756	7,000

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax for the period are as follows:

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Provision for income tax at the applicable statutory tax rates	**8,813**	8,181
Tax effects of:		
Non-deductible expenses	**116**	111
Loss subject to lower tax rate	**24**	86
Income subject to final tax	**(224)**	(278)
Income not subject to income tax	**(230)**	(915)
Equity share in net losses (earnings) of associates and joint ventures	**(264)**	19
Difference between OSD and itemized deductions	**(478)**	(1,337)
Net movement in unrecognized deferred income tax assets and other adjustments	**(1)**	1,133
Actual provision for corporate income tax	**7,756**	7,000

The RCIT rate for domestic corporations and both resident and non-resident foreign corporations in the Philippines increased from 32% to 35% effective November 1, 2005 and was reduced to 30% effective January 1, 2009.

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulation No. 16-2008 which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

For the six months ended June 30, 2010, Smart and Wolfpac opted to use OSD in computing their taxable income. Consolidated tax benefit from the availment of OSD amounted to Php1,593 million. For the six months ended June 30, 2009, Smart, PCEV and Wolfpac availed of the OSD option with a consolidated tax benefit of Php4,457 million.

The availment of OSD affected the recognition of several deferred tax assets and liabilities in which the related income and expense are not considered in determining gross income for income tax purposes. Smart and some of its subsidiaries forecast that they will continue to avail of the OSD, such that, the manner by which it will recover or settle the underlying assets and liabilities for which the deferred tax assets and liabilities were initially recognized, would not result to any future tax consequence under the OSD method. Accordingly, as at June 30, 2010 and December 31, 2009, our unrecognized net deferred income tax assets amounted to Php3,300 million and Php3,296 million, respectively. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions*.

The breakdown of our consolidated deductible temporary differences, carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of OSD) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets are as follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
NOLCO	**2,513**	2,341
Accumulated provision for doubtful accounts	**1,001**	894
Unearned revenues	**197**	188
Provisions for other assets	**167**	163
Accumulated write-down of inventories to net realizable values	**146**	261
Fixed asset impairment	**111**	111
Unrealized foreign exchange losses	**42**	33
Pension and other employee benefits	**38**	44
MCIT	**29**	19
Derivative financial instruments	**19**	19
Operating lease and others	**3**	3
Intangibles	**(186)**	–
	4,080	4,076
Consolidated unrecognized deferred income tax assets (Note 3)	**1,244**	1,236

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at June 30, 2010 is as follows:

Date Incurred	**Expiry Date**	**MCIT**	**NOLCO**
		(in million pesos)	
December 31, 2007	December 31, 2010	4	564
December 31, 2008	December 31, 2011	17	601
December 31, 2009	December 31, 2012	19	926
June 30, 2010	December 31, 2013	11	861
		51	2,952
Consolidated tax benefits		51	886
Consolidated unrecognized deferred income tax assets		(29)	(754)
Consolidated recognized deferred income tax assets		22	132

Registration with Subic Bay Freeport and Clark Special Economic Zone

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

With the transfer of Mabuhay Satellite's leasehold rights over the parcel of land where its satellite facility within the Subic Bay Freeport Zone is located as discussed on *Note 9 – Property, Plant and Equipment*, the registration of Mabuhay Satellite as a Subic Bay Freeport Enterprise was cancelled on July 1, 2010. Mabuhay Satellite is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Registration with Philippine Economic Zone Authority, or PEZA

SPi is registered as an ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions.

Ventus is registered as an ecozone export enterprise to develop and operate a customer interaction solutions that serves local and overseas clients by providing customer relationship management services.

As registered PEZA enterprises, SPi and Ventus are entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the Treasurer's Office of the Municipality or City where the enterprise is located.

Parlance, which is now merged into Ventus, was previously registered with the Board of Investments, or BOI, but became entitled to the same tax incentive provided to Ventus as set out earlier. Parlance's ITH incentive under BOI expired on May 31, 2010 and its registration with PEZA was approved on April 30, 2010.

Two facilities (Ventus Iloilo and Ventus Pasig) will continue to enjoy ITH incentive as a BOI registered entity in PEZA registered locations. ITH incentive commenced in March 2005 up to February 2011 and August 2006 up to July 2012 for Ventus Iloilo and Ventus Pasig, respectively. In relation to this, they are required to comply with specific terms and conditions stated in their PEZA Supplemental Agreement.

Another two locations of Ventus, where registration with PEZA is still being processed, are subject to regular corporate income tax effective June 2010 for Ventus Jupiter and from commencement of operations for Ventus Dumaguete. Ventus is also subject to other local and national taxes as provided for by its local municipalities and the Bureau of Internal Revenues, respectively.

SHI was registered with the PEZA as an Ecozone information technology enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SHI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009.

Registration with BOI

On January 3, 2007, the BOI approved ePLDT's application for pioneer status as a new IT service firm in the field of services related to Internet Data Center for its new data center facility. ePLDT was granted a six-year ITH for its new data center facility from January 2007.

Level Up! was originally registered with the BOI as a new IT service firm in the field of application service provider on a non-pioneer status. Under such registration, Level Up! is entitled to certain tax incentives, which includes a four-year ITH from January 2003 and a tax credit for taxes on duties on materials used in export products for ten years starting January 2003. In April 2004, the BOI approved Level Up!'s request for upgrading its status from non-pioneer to pioneer in connection with its IT service activity in the field of application service provider for entertainment and education project. Accordingly, the ITH period was extended from four years to six years and expired in January 2009. Level Up! is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Wolfpac is registered with the BOI as a new IT service firm in the field of an application service provider on a non-pioneer status. Under the terms of its registration, it is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting February 2004. On November 29, 2007, the BOI approved Wolfpac's application for a one-year extension of ITH incentive on the basis that the capital equipment to labor ratio did not exceed US$10 thousand to one direct labor employee, as provided under Article 39 of Executive Order 226. The approved additional ITH is for the period from February 13, 2008 to February 12, 2009 and was not further extended. As such, Wolfpac is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

SBI is registered with the BOI on a pioneer status, namely as: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of registration, SBI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years. As at June 30, 2010, only the BOI registration for nationwide broadband wireless access continues to enjoy the ITH incentive, which will expire in July 2011.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate enacted as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI for the six months ended June 30, 2010 and 2009 amounted to Php662 million and Php468 million, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the earnings per common share, or EPS:

	Six Months Ended June 30,			
	2010		2009	
	Basic	**Diluted**	Basic	Diluted
	(Unaudited)			
	(in million pesos)			
Consolidated net income for the period attributable to equity holders of PLDT (Notes 4 and 6)	**21,679**	**21,679**	19,720	19,720
Dividends on preferred shares (Note 19)	**(228)**	**(25)**	(227)	(25)
Consolidated net income for the period attributable to common equity holders of PLDT	**21,451**	**21,654**	19,493	19,695
	(in thousands, except per share amounts)			
Outstanding common shares at beginning of period	**186,797**	**186,797**	187,484	187,484
Effect of issuance of common shares during the period (Note 19)	**–**	**–**	10	10
Effect of purchase of treasury stock during the period (Note 19)	–	–	(462)	(462)
Average incremental number of shares under executive stock option plan, or ESOP, during the period	–	–	–	18
Common shares equivalent of convertible preferred shares deemed dilutive:				
Preferred Stock Series A to EE	–	**1,870**	–	1,954
Preferred Stock Series VI (Notes 20 and 26)	**–**	**–**	–	4
Weighted average number of common shares for the period	**186,797**	**188,667**	187,032	189,008
Earnings per share for the period attributable to common equity holders of PLDT	**Php114.84**	**Php114.77**	Php104.22	Php104.20

Basic EPS is calculated by dividing our consolidated net income for the period attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the period or at the time of issuance during the period, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the period exceeds the exercise price of the stock option.

Convertible preferred shares are deemed dilutive when required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the period related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common share equivalent arising from the conversion of the dilutive convertible preferred shares.

Series A to EE in 2010 and Series A to EE, Series V Convertible Preferred Stocks and Series VI Convertible Preferred Stocks in 2009 were deemed dilutive based on a calculation of the required dividends on these preferred shares divided by the number of equivalent common shares assuming such preferred shares are converted into common shares, including the effect of shares under the ESOP and treasury shares, and compared against the basic EPS.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at June 30, 2010 and December 31, 2009, we had acquired a total of approximately 2.7 million shares of PLDT's common stock representing approximately 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,387 per share for a total consideration of Php6,405 million in accordance with the share buyback program. 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 six months ended June 30, 2010 and 2009. See *Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* for further discussion.

9. Property, Plant and Equipment

This account consists of:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)					
As at December 31, 2008 (Audited)										
Cost	115,980	83,562	76,229	21,040	34,816	9,581	8,251	2,527	25,234	377,220
Accumulated depreciation, impairment and amortization	(58,380)	(62,644)	(43,419)	(8,173)	(28,742)	(8,675)	(6,588)	(273)	–	(216,894)
Net book value	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
Year Ended December 31, 2009 (Audited)										
Net book value at beginning of year	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
Additions	1,834	513	4,040	316	1,970	149	225	67	19,091	28,205
Disposals/Retirements	(530)	(6)	(843)	(6)	(107)	(463)	(3)	(5)	(1,228)	(3,191)
Translation differences charged directly to cumulative translation adjustments	3	(2)	–	(10)	(13)	(47)	–	–	–	(69)
Acquisition through business combinations (Note 13)	1,348	194	141	186	104	–	420	105	(10)	2,488
Impairment losses recognized during the year	–	–	(96)	(54)	(17)	–	(418)	(49)	–	(634)
Reclassifications/Transfers (Note 12)	6,949	2,776	8,404	326	386	–	110	(184)	(19,029)	(262)
Depreciation and amortization	(8,793)	(3,381)	(9,013)	(1,151)	(2,176)	(545)	(542)	(6)	–	(25,607)
Net book value at end of year (Note 3)	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
As at December 31, 2009 (Audited)										
Cost	126,327	87,517	83,451	21,693	35,282	966	8,940	2,458	24,058	390,692
Accumulated depreciation, impairment and amortization	(67,916)	(66,505)	(48,008)	(9,219)	(29,061)	(966)	(7,485)	(276)	–	(229,436)
Net book value (Note 3)	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings and improvements	Vehicles, furniture and other network equipment	Communications satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)					
Period Ended June 30, 2010 (Unaudited)										
Net book value at beginning of period (Note 3)	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
Additions	966	82	1,227	200	777	–	93	–	6,312	9,657
Disposals/Retirements	–	(38)	(45)	(12)	(33)	–	–	–	(1)	(129)
Translation differences charged directly to cumulative translation adjustments	–	(6)	–	–	(2)	–	–	–	–	(8)
Impairment losses recognized during the period (Notes 3, 4 and 5)	–	–	–	(12)	–	–	–	–	–	(12)
Reclassifications/Transfers (Note 12)	355	945	2,519	371	512	–	64	33	(4,742)	57
Depreciation and amortization (Notes 3 and 4)	(3,939)	(1,656)	(4,856)	(975)	(1,367)	–	(261)	–	–	(13,054)
Net book value at end of period (Note 3)	55,793	20,339	34,288	12,046	6,108	–	1,351	2,215	25,627	157,767
As at June 30, 2010 (Unaudited)										
Cost	127,660	88,415	86,861	22,032	36,119	966	9,052	2,492	25,627	399,224
Accumulated depreciation, impairment and amortization	(71,867)	(68,076)	(52,573)	(9,986)	(30,011)	(966)	(7,701)	(277)	–	(241,457)
Net book value (Note 3)	55,793	20,339	34,288	12,046	6,108	–	1,351	2,215	25,627	157,767

Substantially, all our telecommunications equipment are purchased from outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities*.

Interest and net foreign exchange losses capitalized to property, plant and equipment that qualified as borrowing costs for the period are as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Interest (Note 5)	**306**	374
Foreign exchange gains – net	**71**	28

Average interest capitalization rates of approximately 6% and 7% were used for the six months ended June 30, 2010 and 2009, respectively.

As at June 30, 2010 and December 31, 2009, our undepreciated capitalized net foreign exchange losses which qualified as borrowing costs amounted to Php1,492 million and Php1,799 million, respectively.

The useful lives of our assets are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	10 – 20 years
Cellular facilities	3 – 10 years
Buildings and improvements	25 years
Vehicles, furniture and other network equipment	3 – 5 years
Communications satellite	15 years
Information origination and termination equipment	3 – 15 years
Land improvements	10 years

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases amounting to Php12 million and Php24 million as at June 30, 2010 and December 31, 2009, respectively. See *Note 20 – Interest-bearing Financial Liabilities*.

Wholesale Transponder Lease Agreement between Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III

On September 16, 2008, Mabuhay Satellite entered into a wholesale transponder lease agreement with ProtoStar and ProtoStar III subject to fulfillment of certain closing conditions. In May 2009, Mabuhay Satellite formalized the consequential termination of the wholesale transponder lease agreement due to non-fulfillment of certain closing conditions. See *Note 18 – Prepayments* and *Note 26 – Contractual Obligations and Commercial Commitments*.

Satellite Wholesale Lease and Purchase Agreement, or SWLPA, and Operations Management Agreement, or OMA, between Mabuhay Satellite and Asia Broadcast Satellite Holdings, Ltd.

On October 22, 2009, Mabuhay Satellite entered into SWLPA and OMA with Asia Broadcast Satellite Holdings, Ltd., or ABS, a Bermuda company engaged in the satellite business, involving the wholesale lease by ABS of the Agila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, the purchase by ABS of the business of Mabuhay Satellite.

Under the SWLPA, Mabuhay Satellite, in exchange for a total consideration of US$12.5 million, or Php580 million, will: (i) lease to ABS the Agila 2 satellite; (ii) assign the customer contracts to ABS; and (iii) transfer to ABS the Mabuhay Satellite's ground control facilities, employees, leasehold rights, other assets and the Agila 2 satellite. The term of the lease is for a period starting from the effective date of SWLPA to the earlier of: (a) the end of life of Agila 2 satellite; or (b) the date when Mabuhay Satellite assigns, transfers and conveys to ABS all of its rights, title and interest in the Agila 2 satellite. As part of the wholesale lease, Mabuhay Satellite is required to assign to ABS all its rights, title, interest, benefits and obligations in the customer contracts attached to all transponders that are covered by the SWLPA.

Under the OMA, after the closing of the agreement but prior to the transfer and conveyance of the ground control facilities to ABS pending the receipt of International Traffic in Arms Regulations approval, the parties agree that Mabuhay Satellite will operate and manage the Agila 2 satellite, the transponders and the ground control facilities for and on behalf of ABS. Mabuhay Satellite is required to provide the operations and management services for and in consideration of: (a) one-time payment by ABS to Mabuhay Satellite of the amount of US$500 thousand, or Php23 million; and (b) the reimbursement by ABS to Mabuhay Satellite of the amount equivalent to the actual expenses, costs, losses and liabilities incurred by Mabuhay Satellite in providing the services.

As at December 31, 2009, all significant closing conditions had been secured. On January 18, 2010, Mabuhay Satellite, ABS and Asia Broadcast Satellite, Ltd., formally executed a Conditions Precedent Waiver and First Closing Confirmation, confirming that the first closing was deemed to have occurred effective December 31, 2009. First Closing means the date when the assignment of customer contracts to ABS became effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least 2/3 of its outstanding capital stock was obtained. Following the confirmation of first closing, the wholesale lease of transponders by Mabuhay Satellite to ABS was considered as a finance lease and the transaction was recognized as sale of satellite for a total consideration of US$9.9 million, or Php460 million, including the cost of customer contracts as at December 31, 2009.

On July 1, 2010, Mabuhay Satellite, ABS and Broadband Broadcast Services Pte. Ltd., or BBS, executed a Conditions Precedent Waiver and Second Closing Confirmation, confirming that the second closing was deemed to have occurred on July 1, 2010. Second Closing means that date when transfer to BBS of Mabuhay Satellite's ground control facilities, employees, leasehold rights and other assets and the transfer of ABS of the Agila 2 satellite became effective. Following the confirmation of second closing, the OMA was terminated.

Impairment of BOW's Property and Equipment

In December 2009, impairment losses were recognized on BOW's property and equipment in the amount of Php524 million. The impairment losses resulted from the annual asset impairment test comparing the recoverable amount of the asset against its carrying value. The recoverable amount was determined based on value in use calculation using cash flow projections covering a five-year period from 2010 to 2014. The pre-tax discount rate applied to cash flow projections is 8.7% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry. See *Note 14 – Goodwill and Intangible Assets*.

10. Investments in Associates and Joint Ventures

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Carrying Value of Investments in Associates:		
Meralco	**6,675**	21,420
Philweb Corporation, or Philweb	**833**	750
ACeS International Limited, or AIL	**–**	–
	7,508	22,170
Carrying Value of Investments in Joint Ventures:		
Beacon	**15,312**	–
ePDS, Inc., or ePDS	**53**	43
PLDT Italy S.r.l., or PLDT Italy	**–**	20
	15,365	63
Total carrying value of investments in associates and joint ventures	**22,873**	22,233

Movements in the cost of investments are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Balance at beginning of period	**24,170**	4,346
Additions during the period (including transfer of interests in Meralco to Beacon)	**15,098**	21,555
Transfer of investment in Meralco to Beacon	**(14,767)**	–
Business combinations (Note 13)	**–**	(821)
Dissolution of Mabuhay Space Holdings Limied, or MSHL	**–**	(887)
Translation and other adjustments	**(45)**	(23)
Balance at end of period	**24,456**	24,170

Movements in the accumulated impairment losses are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Balance at beginning of period	**1,906**	2,903
Impairment for the period (Notes 3, 4 and 5)	**78**	–
Business combinations (Note 13)	**–**	(97)
Dissolution of MSHL	**–**	(887)
Translation and other adjustments	**(84)**	(13)
Balance at end of period	**1,900**	1,906

Movements in the accumulated equity share in net earnings (losses) of associates and joint ventures are as follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Balance at beginning of period	**(31)**	(269)
Equity share in net earnings (losses) of associates and joint ventures for the period (Note 4):	**881**	2
Meralco	**556**	398
Beacon	**228**	–
Philweb	**83**	152
ePDS	**14**	21
BayanTrade	**–**	(5)
PLDT Italy	**–**	(98)
BOW	**–**	(466)
Translation adjustments	**5**	3
Dividends	**(221)**	(357)
Transfer of share in net earnings to Beacon	**(317)**	–
Business combinations (Note 13)	**–**	590
Balance at end of period	**317**	(31)

Investments in Associates

PCEV's Acquisition of Shares in Meralco

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or 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 designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, PCEV and FPUC also entered into an exchangeable note agreement under which PCEV purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2,000 million, exchangeable into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by PCEV in the transaction. The exchange option was exercised simultaneously with the acquisition of such shares by PCEV. PCEV recognized a derivative asset of Php563 million on April 20, 2009 for the exchange option feature of the agreement. The residual amount of Php1,437 million was allocated as the value of the host contract of the exchangeable note. The derivative asset was subsequently carried at fair value through profit or loss while the host contract was carried at amortized cost using effective interest rate.

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. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

PCEV engaged the services of an independent appraiser to determine the fair value of Meralco's specific identifiable assets and liabilities and allocate the purchase price of PCEV's investment in Meralco among the identified assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php9,672 million between PCEV's share on the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of PCEV's investments was allocated as follows: (a) Php1,517 million for utility, plant and others; (b) Php320 million for investment properties; (c) Php36 million for investments in associates and joint ventures; (d) Php1,286 million for intangible assets particularly for franchise; (e) Php137 million for contingent liability; and (f) Php6,650 million for goodwill.

On March 30, 2010, PCEV reduced its investment in Meralco by Php15,084 million, the proportionate carrying amount of the 154.2 million Meralco shares sold and transferred to Beacon for a consideration of Php23,130 million, see discussion under "Transfer of PCEV's Equity Interest in Meralco" section. PCEV will continue to use the equity method to account for its remaining investment in 68.8 million of Meralco's common shares, see *Note 3 – Management's Use of Judgments, Estimates and Assumptions*. As at June 30, 2010, the carrying value of investment in Meralco amounted to Php6,675 million with the market value of Php12,797 million based on quoted price of Php186 per share.

Investment of ePLDT in Philweb

In May 2006, ePLDT subscribed to newly issued common shares of Philweb, an internet-based online gaming company, equivalent to 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share or an aggregate amount of Php503 million. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. A portion of the unpaid subscription price amounting to Php25 million will be paid by ePLDT at the same time as the Philweb majority stockholders pay the remaining unpaid portion of the subscription pursuant to a general call on subscription to be made by Philweb's Board of Directors. The remaining unpaid balance of Php50 million will be paid upon the lapse of certain post-closing price adjustment periods. The total unpaid subscription price of Php75 million was recorded as part of "Others" in the "Accrued expenses and other current liabilities" in our consolidated statement of financial position. See *Note 23 – Accrued Expenses and Other Current Liabilities*.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share or an aggregate amount of Php209 million. This represents an additional 6.2% of the outstanding shares of Philweb, raising ePLDT's total equity stake to 26.87%. As at June 30, 2010 and December 31, 2009, ePLDT's equity interest in Philweb is 26.4%.

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. As at December 31, 2009, Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 180 Internet Casino Stations nationwide. As at June 30, 2010 and December 31, 2009, the market value of ePLDT's investment in Philweb, based on quoted share price, amounted to Php4,974 million and Php6,134 million, respectively.

Investment of ACeS Philippines in AIL

As at June 30, 2010, ACeS Philippines had a 36.99% investment in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net losses of AIL amounted to Php18 million and Php7 million for the six months ended June 30, 2010 and 2009, respectively. Share in net cumulative losses amounting to Php3,971 million and Php3,953 million as at June 30, 2010 and December 31, 2009, respectively, were not recognized as we do not have any legal or constructive obligation for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions* and *Note 26 – Contractual Obligations and Commercial Commitments* for further details as to the contractual relationships with respect to AIL.

Summarized Financial Information of Associates

The following tables present the summarized financial information of our investments in associates in conformity with PFRS for equity investees in which we have significant influence:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Consolidated Statements of Financial Position:		
Noncurrent assets	**135,144**	136,581
Current assets	**55,524**	46,755
Equity	**54,005**	52,143
Noncurrent liabilities	**79,770**	86,605
Current liabilities	**56,893**	44,588

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Consolidated Income Statements:		
Revenues	**128,047**	705
Expenses	**116,592**	480
Other expenses	**3,972**	–
Net income	**5,401**	231

The above information includes the financial information of Meralco as at June 30, 2010 and December 31, 2009 and for the six months ended June 30, 2010 as shown below:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Consolidated Statements of Financial Position:		
Noncurrent assets	**133,657**	135,071
Current assets	**53,306**	45,342
Equity	**62,459**	60,878
Noncurrent liabilities	**69,685**	76,516
Current liabilities	**54,819**	43,019

	Six Months Ended June 30, 2010
	(Unaudited)
	(in million pesos)
Consolidated Income Statement:	
Revenues	127,463
Expenses	116,293
Other expenses	3,985
Net income	5,055

Investments in Joint Ventures

Transfer of PCEV's Equity Interest in Meralco

On March 1, 2010, PCEV, MPIC and Beacon, entered into an Omnibus Agreement, or OA. Beacon, formerly known as Rightlight Holdings, Inc., is a newly organized special purpose company with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both hold equity shares in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Investment in Beacon

Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon consisting of 25,000 common shares of Beacon, with a total par value of Php25,000.

On April 29, 2010, the Philippine SEC approved Beacon's application to increase its authorized capital stock to Php5 billion consisting of 3 billion common shares with par value of Php1 per share and 2 billion preferred shares with par value of Php1 per share. The preferred shares of Beacon are non-voting, not convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

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.

MPIC additionally agreed to subscribe to 801 million shares of Beacon's preferred stock for a subscription price of Php10 per share or a total of Php8,010 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801 million preferred shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (c) full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to 1,156.5 million common shares of Beacon and approximately 801 million preferred shares of Beacon in consideration of: (1) the transfer of 163.6 million Meralco shares at a price of Php150 per share, or Php24,540 million in the aggregate; and (2) Php6,600 million in cash, as further described below in "Transfer of Meralco Shares to Beacon".

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; (c) the approval of the shareholders of PCEV, which was obtained on May 7, 2010; and (d) the full payment of the subscription price, which was made on May 12, 2010.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized as an asset the deposit for future stock subscription of Php23,130 million for its subscription to 1,156.5 million common shares of Beacon. The deposit for future stock subscription was eventually reclassified to investment account when Beacon's increase in authorized capital stock was approved by the SEC.

The subscription price of PCEV's and MPIC's subscription to Beacon shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in "Transfer of Meralco Shares to Beacon" section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50% of the 25,000 Beacon common shares originally owned by MPIC.

Transfer of Meralco Shares to Beacon

Alongside with the subscription to the Beacon shares described above, Beacon agreed to purchase 154.2 million and 163.6 million Meralco shares, or the Transferred Shares, from PCEV and MPIC, respectively, for a consideration of Php150 per share or a total of Php23,130 million for the PCEV Meralco shares and Php24,540 million for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's Board of Directors, which was obtained on March 1, 2010; (b) approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163.6 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php24,540 million.

The completion of the sale of the PCEV Meralco shares to Beacon was subject to the following conditions, all of which have been satisfied: (a) PCEV Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which was obtained on March 30, 2010; and (d) the approval of the shareholders of PCEV, which was obtained on May 7, 2010. Consequently, on May 12, 2010, PCEV transferred 154.2 million Meralco shares to Beacon at a price of Php150 per share for a total consideration of Php23,130 million.

The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the PSE.

Although PCEV secured the approval of its shareholders only on May 7, 2010, such approval was deemed to be a formality as Smart owns 99.5% of PCEV's capital stock. Consequently, upon receipt of all other required approvals under the OA on March 30, 2010, including that of the shareholders of First Pacific, PCEV recognized a Php15,084 million investment (initially recognized as deposit for future stock subscription, see discussion above) in Beacon representing the proportionate carrying cost of the 154.2 million Meralco shares transferred to Beacon under the OA. PCEV recognized a deferred gain of Php8,046 million for the difference between the Php23,130 million transfer price of the Meralco shares to Beacon and the Php15,084 million carrying amount in PCEV's books of the Meralco shares transferred. The deferred gain, presented as a reduction in PCEV's investment in Beacon, will only be realized upon the disposal of the investment to a third party.

Subject to rights over certain property dividends that may be declared or distributed in respect of the approximately 317.8 million Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon by MPIC and PCEV in respect of the approximately 317.8 million Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

PCEV may, at some future time and under such terms and conditions as may be agreed by PCEV and Beacon, transfer to Beacon its remaining 68.8 million Meralco common shares.

Call Option

Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon. As a result of this assignment, Beacon and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon.

The Call Option is exercisable at the option of Beacon during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is Php300 per share or an aggregate exercise price of Php22,410 million. Beacon exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon in consideration of the payment by Beacon of Php22,410 million in cash on March 30, 2010.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends

With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by PCEV and the 74.7 million Option Shares transferred by FPHC to Beacon pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

Governance Arrangements

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon equity structure resulted in a jointly-controlled entity.

On March 30, 2010, Beacon also 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. As at June 30, 2010, the amount drawn under this facility amounted to Php16,200 million (Php16,018 million, net of debt issuance cost of Php182 million); the remaining undrawn balance amounted to Php1,800 million.

As at June 30, 2010, Beacon held 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco with market value of Php73,006 million based on a quoted price of Php186 per share.

Investment of ePLDT in ePDS

ePLDT entered into a joint venture agreement on June 27, 2003 with DataPost Pte. Ltd., or DataPost, a subsidiary of Singapore Post, or Spring, and G3 Worldwide ASPAC pursuant to which the parties formed ePDS, a bills printing company that performs laser printing and enveloping services for statements, bills and invoices, and other VAS for companies in the Philippines. ePLDT has a 50% equity interest in ePDS, while DataPost has a 30% equity interest. Spring, the largest international mail services provider, owns the remaining 20% equity interest. ePDS has an initial paid-up capital of Php11 million.

Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% nominal interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global and HGC entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, the aggregate amount of funding to be contributed by PLDT Global and HGC to PLDT Italy, in equal proportions, is capped at Euro 7.0 million. PLDT Global and HGC agreed to share equally the profit and loss from the operations of PLDT Italy. As a condition precedent to the effectiveness of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholding in PLDT Italy to HGC.

On May 17, 2010, the PLDT Italy Board of Directors, during its special meeting, has approved to convert both partner's debts of Euro 370 thousand into equity and to infuse cash of Euro 130 thousand, totaling Euro 500 thousand.

As at June 30, 2010 and December 31, 2009, the aggregate amount of funding contributed by PLDT Global and HGC to PLDT Italy was Euro 6.5 million and Euro 6.0 million, respectively. PLDT Global's share of equity in the joint venture as at June 30, 2010 and December 31, 2009 amounted to Euro 3.25 million, or Php214 million and Euro 3.0 million, or Php199.7 million, respectively.

Summarized Financial Information of Joint Ventures

The following table presents the summarized financial information of our investments in joint ventures.

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Consolidated Statements of Financial Position:		
Noncurrent assets	**80,751**	103
Current assets	**1,473**	244
Equity	**64,829**	57
Noncurrent liabilities	**16,034**	88
Current liabilities	**1,361**	202

	Six Months Ended June 30, 2010	2009
	(Unaudited)	
	(in million pesos)	
Consolidated Income Statements:		
Revenues	**1,065**	123
Expenses	**206**	266
Other Expenses	**400**	–
Net income	**445**	144

The above information includes the financial information of Beacon as at and for the six months ended June 30, 2010 as shown below.

	(in million pesos)
Consolidated Statement of Financial Position:	
Noncurrent assets	80,700
Current assets	1,308
Equity	64,727
Noncurrent liabilities	16,018
Current liabilities	1,263
Consolidated Income Statement:	
Equity share in net income of Meralco	927
Expenses	65
Other expenses	400
Net income	462

As at June 30, 2010, we have no outstanding capital commitments with our joint ventures.

11. Investment in Debt Securities

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
National Power Corporation, or NAPOCOR, Zero Coupon Bond	**323**	312
Rizal Commercial Banking Corporation, or RCBC, Note	**150**	150
(Note 28)	**473**	462

NAPOCOR Zero Coupon Bonds

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond (NAPOCOR Bond) with a face value of Php380 million, maturing on November 29, 2012 at a net yield to maturity of 6.88%. The NAPOCOR Bond, which is classified as a financial asset held-to-maturity, is carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php11 million and Php10 million for the six months ended June 30, 2010 and 2009, respectively.

RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC Note may be redeemed at the option of the Issuer at par plus accrued and unpaid interest on February 22, 2013. Smart designated the RCBC Note as held-to-maturity financial asset. Interest income recognized for each of the six months ended June 30, 2010 and 2009 amounted to Php4 million.

12. Investment Properties

Movements in investment properties are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Balance at beginning of period	**1,210**	617
Disposals	**(55)**	(21)
Transfer from (to) property, plant and equipment (Note 9)	**(57)**	262
Net gains from fair value adjustments (Note 3)	**–**	352
Balance at end of period (Notes 3 and 28)	**1,098**	1,210

Investment properties are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation undertaken was based on an open market value, supported by a market evidence in which assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction at the dates of valuation. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses relating to investment properties amounted to Php34 million and Php33 million for the six months ended June 30, 2010 and 2009, respectively.

13. Business Combinations and Acquisition of Non-Controlling Interests

2009 Acquisitions

PLDT's Acquisition of Philcom

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

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	1,851
Available-for-sale financial assets	5
Deferred income tax assets – net	3
Cash and cash equivalents	51
Trade and other receivables	204
Inventories and supplies	15
Prepayments	8
	2,137
Liabilities:	
Long-term debt	340
Deferred income tax liabilities – net	381
Pension and other employee benefits	13
Accounts payable	1,206
Accrued expenses and other current liabilities	77
Dividends payable	2
Income tax payable	3
	2,022
	115
Non-controlling interests	40
Net assets acquired	75

Non-controlling interests represent the interest not owned by Philcom in its two subsidiaries, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php204 million and Php679 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php475 million.

Total revenues and net income of Philcom included in our 2009 consolidated income statement from the time of acquisition until December 31, 2009 amounted to Php387 million and Php2 million, respectively.

ePLDT's Acquisition of BayanTrade

On January 20, 2009 and April 15, 2009, ePLDT acquired additional equity interest of 34.3% and 48.4%, respectively, in BayanTrade for a cash consideration of Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.5% as at April 15, 2009. As a result of the transaction, goodwill amounting to Php184 million, representing the difference between the consideration of Php61 million, net of Php5 million accumulated equity share in net losses of BayanTrade, and the book value of the interest acquired, was recognized.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values on April 15, 2009 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	21
Goodwill (Note 14)	184
Deferred income tax assets – net	19
Advances and refundable deposits	11
Cash and cash equivalents	6
Trade and other receivables	179
Prepayments and other current assets	6
	426
Liabilities:	
Long-term debt	150
Pension and other employee benefits	5
Other noncurrent liabilities	59
Accounts payable	85
Accrued expenses and other current liabilities	75
	374
	52
Non-controlling interests	(9)
Net assets acquired	61

Non-controlling interests represent interest not owned by ePLDT, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php179 million and Php11 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php195 million and Php11 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php16 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The goodwill of Php184 million pertains to the fair value of assembled workforce which offers managed information technology services and has personnel with skills in Systems, Applications and Products, Microsoft and other Enterprise Resource Planning, or ERP. They have the largest pool of ERP practitioners in the South East Asia region.

Our consolidated revenues would have increased by Php61 million while our consolidated net income would have decreased by Php19 million for the year ended December 31, 2009 had the acquisition of BayanTrade actually taken place on January 1, 2009. Total revenues and net losses of BayanTrade included in our 2009 consolidated income statement from April 15, 2009 to December 31, 2009 amounted to Php275 million and Php27 million, respectively.

Smart's Acquisition of Non-Controlling Interests in PCEV

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. These shares represented approximately 7.2% of the outstanding common stock of PCEV at that time. Smart filed the Tender Offer Report with the Philippine SEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code, or SRC. The tender 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 statements of financial position.

Smart's Acquisition of Shares in BOW

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW, a Dublin-based company delivering GSM communication capability for the merchant maritime sector 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%. Total acquisition cost for Smart's investment in BOW amounted to US$9 million, or Php439 million, which consists of: (a) US$4 million, or Php182 million, in cash; (b) US$2 million, or Php119 million, worth of advances; and (c) fair value of previously held interest amounting to US$3 million, or Php138 million. Net cash outflow related to the acquisition was US$12 million, or Php552 million, representing cash payment of US$17 million, or Php783 million, net of cash acquired from BOW of US$5 million, or Php231 million.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values in July 2009 as follows:

	In U.S. Dollar	In Php[(1)]
	(in millions)	
Assets:		
Property, plant and equipment	12	558
Goodwill (Note 14)	1	45
Intangible assets (Note 14)	5	221
Advances and refundable deposits	–	7
Cash and cash equivalents	5	231
Trade and other receivables	–	33
Prepayments	–	31
	23	1,126
Liabilities:		
Long-term debt	4	203
Accrued expenses and other current liabilities	2	106
	6	309
	17	817
Non-controlling interests	8	378
Net assets acquired	9	439

(1) *Converted to Philippine Peso using the exchange rate at the time of purchase of Php48.07 to US$1.00.*

Non-controlling interests represent interest not owned by Smart, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value of trade and other receivables and advances and refundable deposits, which is equal to gross amount, amounted to Php33 million and Php7 million, respectively.

The acquisition date fair value of previously held equity interest of 28.3% by Smart immediately before the acquisition date amounted to Php138 million. The amount of loss recognized as a result of remeasuring previously held equity interest to fair value amounted to Php381 million and is included in "Equity share in net earnings (losses) of associates and joint ventures" in our consolidated income statement.

The goodwill of Php45 million pertains to the fair value of the expected synergies arising from the acquisition of BOW by SCH. BOW is expected to complement *Smart Link*, Smart's satellite service catering to the mobile communication requirements of the international maritime market.

Our consolidated revenues would have increased by Php68 million while our consolidated net income would have decreased by Php300 million for the year ended December 31, 2009 had the additional acquisition of BOW actually taken place on January 1, 2009. Total revenues and net losses of BOW included in our 2009 consolidated income statement from July 2009 to December 31, 2009 amounted to Php10 million and Php906 million, respectively.

SPi's Acquisition of Laguna Medical Systems, Inc., or Laguna Medical

On August 31, 2009, SPi acquired through SPi-America, a wholly-owned U.S. subsidiary of SPi, a 100% equity interest in Laguna Medical for a cash contribution of US$6.6 million, or Php313 million, plus a contingent consideration in the form of a mandatory put-call option with an aggregate fair value at acquisition date of US$5.4 million, or Php257 million. As at date of the acquisition, the net cash outflows related on acquisition was US$5.6 million, or Php287 million, representing cash payments of US$6.6 million, or Php313 million, net of cash acquired from Laguna Medical of US$1 million, or Php26 million. Total purchase price consideration including the fair market value of contingent liability at acquisition date amounted to US$12 million, or Php579 million. Incidental cost related to the acquisition was recognized as expense. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition. The fair values of the identifiable acquired assets and liabilities of Laguna as at the time of the acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	In U.S. Dollar	In Php[(1)]
	(in millions)	
Assets:		
Property, plant and equipment	–	8
Goodwill (Note 14)	10	463
Intangible assets (Note 14)	2	73
Deferred income tax assets – net	–	3
Cash and cash equivalents	1	26
Trade and other receivables	1	53
Other current assets	–	15
	14	641
Liabilities:		
Accounts payable	–	4
Accrued expenses and other current liabilities	1	24
Deferred income tax liabilities – net	1	29
Other current liabilities	–	5
	2	62
Net assets acquired	12	579

[(1)] *Converted to Philippine Peso using the exchange rate at the time of purchase of Php47.42 to US$1.00.*

Laguna Medical was accounted for in our consolidated financial statements using the purchase price method of accounting, which resulted in goodwill amounting to Php463 million on August 31, 2009.

The goodwill pertains to the fair value of expanding the healthcare product offering of SPi and other unidentified intangible assets that did not qualify as intangible assets under *PAS 38*.

The intangible assets pertaining to Laguna Medical's customer relationship and internally developed software were determined at Php50 million and Php23 million, respectively, with estimated useful lives of eight and three years, respectively. Intangible assets were valued by an independent appraiser based on multiple excess earnings approach using weighted average cost of capital of 10.69%.

The fair value of trade and other receivables, which is equal to gross amount, amounted to Php53.4 million. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

Our consolidated revenues would have increased by Php237 million while our consolidated net income would have increased by Php8 million for the year ended December 31, 2009 had the acquisition of Laguna Medical actually taken place on January 1, 2009. Total revenues and net income of Laguna Medical included in our 2009 consolidated income statement from August 31, 2009 to December 31, 2009 amounted to Php103 million and Php0.3 million, respectively.

Smart's Acquisition of PDSI

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.

The purchase price consideration was allocated based on the result of estimates generated from the excess earnings and relief from royalty methods. A fixed asset appraisal was conducted by an independent appraiser to provide the fair market values of the specific fixed assets owned by PDSI. Identified and measurable tangible and intangible assets were totaled and measured against the purchase price with goodwill assigned to the residual value. The results are summarized in the table below:

	(in million pesos)
Assets:	
Property, plant and equipment	93
Goodwill (Note 14)	1,530
Intangible assets (Note 14)	16
Prepayments	10
Advances and refundable deposits – net of current portion	8
Cash and cash equivalents	12
Trade and other receivables	42
Current portion of advances and refundable deposits	6
	1,717
Liabilities:	
Accounts payable	30
Accrued expenses and other current liabilities	116
Income tax payable	2
	148
Net assets acquired	1,569

The acquisition date fair value of the 40% equity interest in PDSI that had been held by Smart immediately before the acquisition date amounted to Php632 million.

The provisional goodwill in 2009 was reduced by the increase in the property, plant and equipment amounting to Php51 million and the recognition of intangible assets amounting to Php16 million.

The goodwill of Php1,530 million pertains to the fair value of the expected synergies arising from the acquisition of PDSI by Smart. PDSI is expected to complement SBI's broadband internet service.

Our consolidated revenues would have increased by Php241 million while our consolidated net income would have decreased by Php9 million for the year ended December 31, 2009 had the acquisition of PDSI actually taken place on January 1, 2009. Total revenues and net losses of PDSI included in our 2009 consolidated net income from October 2, 2009 to December 31, 2009 amounted to Php80 million and Php13 million, respectively.

Smart's Acquisition of Chikka

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka 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, will be settled on a date mutually acceptable to both Smart and Chikka. See *Note 23 – Accrued Expenses and Other Current Liabilities*.

The purchase price consideration has been initially allocated to the assets and liabilities on the basis of provisional values on December 18, 2009 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	8
Provisional goodwill (Note 14)	561
Intangible assets (Note 14)	27
Advances and refundable deposits – net of current portion	1
Cash and cash equivalents	89
Trade and other receivables	51
Current portion of advances and refundable deposits	19
	756
Liabilities:	
Accounts payable	8
Accrued expenses and other current liabilities	105
Accrued retirement benefits	12
Income tax payable	2
	127
Net assets acquired	629

The net assets recognized at the date of acquisition were based on provisional fair values as Smart had sought an independent valuation for the assets owned by Chikka. The results of this valuation had not been finalized as at September 14, 2010.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php51 million and Php20 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php67 million and Php20 million, respectively. The amount of allowance for impairment for uncollectible amount for trade and other receivables amounted to Php16 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The provisional goodwill of Php561 million pertains to the fair value of the expected synergies arising from the acquisition of Chikka by Smart. As a content provider, Chikka is expected to enhance Smart's revenue stream from VAS.

Our consolidated revenues would have increased by Php189 million while our consolidated net income would have decreased by Php6 million for the year ended December 31, 2009 had the acquisition of Chikka actually taken place on January 1, 2009. The results of operation of Chikka from December 18, 2009 to December 31, 2009 were not included in our 2009 consolidated income statement since it was not material.

14. Goodwill and Intangible Assets

Movements in goodwill and intangible assets are as follows:

	Intangible Assets							
	Customer List	**Spectrum**	**Licenses**	**Technology Application**	**Trademark**	**Total Intangible Assets**	**Goodwill**	**Total Goodwill and Intangible Assets**
				(in million pesos)				
June 30, 2010 (Unaudited)								
Costs:								
Balance at beginning of period	1,655	1,205	613	967	27	4,467	15,201	19,668
Translation and other adjustments (Note 13)	49	–	–	23	–	72	(23)	49
Additions	–	–	10	–	1	11	–	11
Balance at end of period	1,704	1,205	623	990	28	4,550	15,178	19,728
Accumulated amortization and impairment:								
Balance at beginning of period	995	428	448	964	–	2,835	3,809	6,644
Amortization during the period	111	40	17	7	3	178	–	178
Translation and other adjustments	(1)	–	–	3	–	2	–	2
Balance at end of period	1,105	468	465	974	3	3,015	3,809	6,824
Net balance at end of period (Notes 3 and 28)	**599**	**737**	**158**	**16**	**25**	**1,535**	**11,369**	**12,904**

	Customer List	Spectrum	Licenses	Technology Application	Trademark	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
	Intangible Assets							
				(in million pesos)				
Estimated useful lives (in years)	1 – 8	15	3 – 18	3 – 5	6	–	–	–
Remaining useful lives (in years)	1 – 7	9	1 – 12	2	6	–	–	–
December 31, 2009 (Audited)								
Costs:								
Balance at beginning of year	1,696	1,205	370	894	–	4,165	12,289	16,454
Business combinations (Notes 3, 13 and 21)	–	–	221	–	27	248	3,013	3,261
Translation and other adjustments (Note13)	(41)	–	22	73	–	54	(101)	(47)
Balance at end of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Accumulated amortization and impairment:								
Balance at beginning of year	794	348	203	860	–	2,205	3,799	6,004
Impairment during the year (Notes 4 and 5)	–	–	213	73	–	286	93	379
Amortization during the year	220	80	37	31	–	368	–	368
Translation and other adjustments	(19)	–	(5)	–	–	(24)	(83)	(107)
Balance at end of year	995	428	448	964	–	2,835	3,809	6,644
Net balance at end of year (Notes 3 and 28)	**660**	**777**	**165**	**3**	**27**	**1,632**	**11,392**	**13,024**
Estimated useful lives (in years)	1 – 7	15	3 – 18	4 – 5	6	–	–	–
Remaining useful lives (in years)	1 – 4	10	2 – 13	1	6	–	–	–

Intangible Assets

In 2009, Smart recognized intangible assets of Php221 million for licenses and fees in BOW for the perpetual and exclusive worldwide maritime licenses granted by Altobridge, Limited to BOW to facilitate the successful communication between GSM and satellite communication networks. Smart recognized an impairment charge of Php213 million, net of amortization of Php8 million, for the year ended December 31, 2009, reducing the amount of intangible assets in BOW to zero as at December 31, 2009. The impairment loss resulted from the annual impairment test done on the assets. See *Note 9 – Property, Plant and Equipment* for the basis of impairment valuation.

Smart also recognized in 2009 intangible assets of Php51 million in Chikka for patents and trademark relating to Chikka's internet-based instant messaging facility. These applications were filed in different countries such as Singapore, United Kingdom and the U.S.

The consolidated future amortization of other intangible assets as at June 30, 2010 is as follows:

Year	(in million pesos)
2010[(1)]	181
2011	321
2012	263
2013	202
2014 and onwards	568
Balance at end of period	1,535

(1) July 1, 2010 through December 31, 2010.

Impairment Testing of Goodwill

Goodwill from Acquisition of SBI, CURE and Airborne Access

The organizational structure of Smart and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at June 30, 2010, Smart's goodwill comprised of goodwill resulting from Smart's acquisition of SBI in 2004, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access from ePLDT in 2008 and based on provisional value from acquisition of PDSI and Chikka in 2009. The test for recoverability of Smart's goodwill, excluding provisional goodwill, was applied to the wireless asset group, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among Smart, CURE and SBI through subscribers availing themselves of their respective cellular (for Smart and CURE) and wireless broadband (for SBI) services, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common-used network/platform. In the case of CURE, it provides cellular services to its subscribers using Smart's 3G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone. With the common use of wireless assets of Smart in providing 3G cellular and wireless broadband access, the lowest level of assets of CURE and SBI for which cash flows are clearly identifiable from other groups of assets is Smart's wireless business segment.

The recoverable amount of this segment had been determined on the basis of value in use calculations using cash flow projections based on the financial budgets approved by the Board of Directors, covering a five-year period from 2010 to 2014. The pre-tax discount rate applied to cash flow projections is 8.7% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

With regard to the assessment of value-in-use of the entire operations, management believes that no reasonably possible change in the discount of 1% point would cause the carrying value of the unit to materially exceed its recoverable amount.

There were no impairment indicators identified as at June 30, 2010. Annual impairment testing will be performed at year-end.

Goodwill from Acquisition of BOW

In December 2009, SCH recognized full impairment loss of Php45 million on goodwill resulting from its acquisition of BOW. The impairment loss resulted from the annual impairment test done on the assets. See *Note 9 – Property, Plant and Equipment* for the basis of impairment valuation.

Goodwill from Acquisition of SPi and its Subsidiaries, CyMed, Inc., or CyMed, and Springfield Service Corp., or Springfield

The goodwill acquired through the SPi, CyMed and Springfield transactions was allocated for impairment testing to each of the cash-generating units of those businesses, namely medical transcription, litigation, content and medical billing. The recoverable amount of goodwill was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The discount rate applied was 15% which was based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the assets or business of a cash-generating unit.

ePLDT recognized an impairment loss of Php1,815 million for the year ended December 31, 2008 pertaining to the medical transcription and litigation businesses of SPi, since the carrying amount of the individual assets of the said business, exceeded the recoverable amount in 2008. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of SPi and its Subsidiaries, CyMed and Springfield and no additional impairment charge was recognized.

There were no impairment indicators identified as at June 30, 2010. Annual impairment testing will be performed at year-end.

Goodwill from Acquisition of Level Up!

Goodwill acquired from our acquisition in 2006 of a 60% equity interest in Level Up! was tested for impairment in December 2009 where the recoverable amount was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors of ePLDT. The discount rate of 22% was applied based on the weighted average cost of capital adjusted for specific risks associated with the assets or business. ePLDT recognized an impairment charge of Php203 million for the year ended December 31, 2008 pertaining to the goodwill from acquisition of Level Up!. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of Level Up! and no additional impairment charge was recognized.

There were no impairment indicators identified as at June 30, 2010. Annual impairment testing will be performed at year-end.

Goodwill from Acquisition of Digital Paradise

Goodwill acquired from the acquisition of Digital Paradise was tested for impairment in December 2009 based on the recoverable amount of the long lived assets where recoverable amount was determined based on the cash flow projections on the most recent financial budgets and forecasts approved by the Board of Directors. The discount rate applied was 22% which was based on the weighted average cost of capital. ePLDT recognized full impairment provision of Php85 million as at December 31, 2009.

15. Cash and Cash Equivalents

This account consists of:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Cash on hand and in banks (Note 28)	**3,065**	3,300
Temporary cash investments (Note 28)	**25,813**	35,019
	28,878	38,319

Cash in banks earns interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing short-term deposit rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php564 million and Php733 million for the six months ended June 30, 2010 and 2009, respectively.

16. Trade and Other Receivables

This account consists of receivables from:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Corporate subscribers (Notes 24 and 28)	**9,192**	9,106
Retail subscribers (Note 28)	**8,320**	8,026
Foreign administrations (Note 28)	**4,758**	4,353
Domestic carriers (Notes 24 and 28)	**1,961**	1,267
Dealers, agents and others (Notes 24 and 28)	**4,190**	3,927
	28,421	26,679
Less allowance for doubtful accounts	**13,006**	11,950
	15,415	14,729

Movements in the allowance for doubtful accounts are as follows:

	Total	Corporate Subscribers	Retail Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
June 30, 2010 (Unaudited)						
Balance at beginning of period	11,950	6,677	4,480	289	83	421
Provisions for the period (Notes 3 and 5)	1,068	522	412	40	9	85
Write-offs	(12)	(7)	–	(2)	–	(3)
Translation and other adjustments	–	(140)	(10)	80	(13)	83
Balance at end of period	13,006	7,052	4,882	407	79	586
Individual impairment	10,503	6,603	2,946	407	79	468
Collective impairment	2,503	449	1,936	–	–	118
	13,006	7,052	4,882	407	79	586
Gross amount of receivables individually impaired, before deducting any impairment allowance	10,503	6,603	2,946	407	79	468
December 31, 2009 (Audited)						
Balance at beginning of year	12,336	6,323	5,089	439	174	311
Provisions for the year	2,335	670	1,512	18	35	100
Business combinations (Note 13)	513	36	454	–	–	23
Reversals	(46)	(18)	(9)	(13)	(6)	–
Write-offs	(3,212)	(1,178)	(1,657)	(216)	(157)	(4)
Translation and other adjustments	24	844	(909)	61	37	(9)
Balance at end of year	11,950	6,677	4,480	289	83	421
Individual impairment	9,624	6,256	2,595	289	83	401
Collective impairment	2,326	421	1,885	–	–	20
	11,950	6,677	4,480	289	83	421
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,624	6,256	2,595	289	83	401

Receivables from foreign administrations and domestic carriers represent receivables arising from interconnection agreements with other telecommunication carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers where a legal right of offset exists and settlement is facilitated on a net basis.

17. Inventories and Supplies

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Spare parts and supplies:		
At net realizable value	**1,187**	982
At cost	**2,201**	1,998
Terminal and cellular phone units:		
At net realizable value	**745**	652
At cost	**926**	981
Others:		
At net realizable value	**629**	531
At cost	**632**	534
Total inventories at the lower of cost or net realizable value (Note 28)	**2,561**	2,165

The cost of inventories and supplies recognized as expense for the period are as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Cost of sales	**1,964**	1,310
Repairs and maintenance	**144**	217
Write-down of inventories and supplies (Notes 3 and 5)	**33**	43
	2,141	1,570

18. Prepayments

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Prepaid taxes	**7,467**	7,768
Prepaid benefit costs (Notes 3 and 25)	**5,344**	5,414
Prepaid fees and licenses	**208**	44
Prepaid rent – net (Notes 3 and 26)	**155**	208
Prepaid insurance (Note 24)	**106**	109
Other prepayments	**230**	218
	13,510	13,761
Less current portion of prepayments (Note 28)	**5,263**	5,098
Noncurrent portion of prepayments (Note 28)	**8,247**	8,663

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Prepaid benefit costs represent excess of plan assets over present value of defined benefit obligations recognized in our consolidated statements of financial position. See *Note 25 – Share-based Payments and Employee Benefits*.

Option to Purchase Series C Preferred Shares of ProtoStar

On September 16, 2008, PLDT signed an option to purchase Series C Preferred Shares of ProtoStar pursuant to which PLDT was entitled to subscribe for and purchase 39.7 million Series C Preferred Shares at the exercise price of US$0.6925 per share during the exercise period. PLDT paid US$27.5 million to ProtoStar as a deposit to pay the exercise price if PLDT exercised the option or, if not exercised, such payment would be applied as payment of the service fees to ProtoStar under the Space Segment Services Agreement between PLDT and ProtoStar. On May 15, 2009, PLDT formally advised ProtoStar that it will not exercise its option to purchase ProtoStar's Series C Preferred Shares and that it has elected to apply the US$27.5 million it had paid for such option as Priority Deposit under the Space Segment Services Agreement, which amount was deemed as full prepayment of the space segment services under said agreement.

On July 29, 2009, ProtoStar and its affiliates ProtoStar Satellite Systems, Inc., ProtoStar I Ltd., ProtoStar II Ltd., ProtoStar Development Ltd. and ProtoStar Asia Pte. Ltd. each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are pending before the United States Bankruptcy Court for the District of Delaware. PLDT is actively participating in the ProtoStar bankruptcy cases through a legal counsel to preserve the value of its prepayment. An auction of ProtoStar's ProtoStar I satellite was held in October 2009 and of ProtoStar's ProtoStar II satellite in December 2009, the proceeds of which are to be distributed first to ProtoStar's secured lenders and the balance, if any, to its unsecured lenders, once the bankruptcy court has finally determined over the objection and challenge of the unsecured lenders, that the secured lenders have perfected their security over said assets and are entitled to priority in payment. The filing of the bankruptcy case and the eventual sale of the ProtoStar I satellite constitute a breach by ProtoStar of the Space Segment Services Agreement. On this basis, we recognized a full impairment provision of US$27.5 million, or Php1,304 million, in 2009 with respect to our prepayments on the Space Segment Services Agreement. The bankruptcy proceeding is still in progress and settlement negotiations are ongoing among Protostar and all its secured and unsecured creditors as at September 14, 2010. The US$27.5 million was presented as part of prepaid rent in the above table, net of the impairment provision.

19. Equity

The movement of PLDT's capital account are as follows:

	Preferred Stock – Php10 par value per share				Common Stock – Php5 par value per share	
	Series A to EE	IV	Total Preferred Stock			
	No. of Shares			Amount	No. of Shares	Amount
				(in millions)		
Authorized			823	Php8,230	234	Php1,170
Issued						
Balance as at January 1, 2009	405	36	441	Php4,415	189	Php947
Issuance	–	–	–	2	–	–
Conversion	–	–	–	(1)	–	–
Balance as at December 31, 2009 (Audited)	**405**	**36**	**441**	**Php4,416**	**189**	**Php947**
Balance as at January 1, 2010	405	36	441	Php4,416	189	Php947
Issuance	–	–	–	1	–	–
Balance as at June 30, 2010 (Unaudited)	**405**	**36**	**441**	**Php4,417**	**189**	**Php947**

Preferred Stock

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to II 10% Cumulative Convertible Preferred Stock earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at June 30, 2010, was Php5.00 per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the subscriber investment plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series A to II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

On January 26, 2010, the Board of Directors designated 100 thousand shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock for issuance from January 1, 2010 to December 31, 2012.

The issuance of each of SIP Series FF, GG and HH is an exempt transaction under Section 10.2 of the SRC, as confirmed by the Philippine SEC in a letter sent to us on April 2, 2007. As at June 30, 2010, there were no issued and outstanding shares for Series FF, GG and HH.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The provisions of the resolutions creating preferred stock limit the ability of PLDT to pay cash dividends unless all dividends on such preferred stock for all past dividend payment periods have been paid and or declared and set apart and provision has been made for the currently payable dividends.

Common Stock

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholder value. This also reinforces initiatives that PLDT has already undertaken such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our earnings per share, after having determined that PLDT has the capacity to pay additional returns to shareholders. Under the share buyback program, PLDT reacquired shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

As at June 30, 2010 and December 31, 2009, we had acquired a total of approximately 2.7 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 in accordance with the share buyback program. See *Note 8 – Earnings Per Common Share* and *Note 28 – Financial Assets and Liabilities*.

Dividends Declared For The Six Months Ended June 30, 2010 (Unaudited)

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total**
					(in million pesos)
10% Cumulative Convertible Preferred Stock					
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	Php1.00	17
Series DD	January 26, 2010	February 11, 2010	February 26, 2010	1.00	2
Series EE	March 26, 2010	April 23, 2010	May 31, 2010	1.00	–
					19
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2010	February 19, 2010	March 15, 2010	Php–	12
	May 13, 2010	May 27, 2010	June 15, 2010	–	13
					25
Common Stock					
Regular Dividend	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00	14,197
Special Dividend	March 2, 2010	March 17, 2010	April 20, 2010	65.00	12,142
					26,339
Charged to retained earnings					26,383

** Dividends were declared based on total amount paid up.*

Dividends Declared For The Six Months Ended June 30, 2009 (Unaudited)

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total**
					(in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	March 3, 2009	March 19, 2009	April 15, 2009	Php4.675	–
	June 9, 2009	June 25, 2009	July 15, 2009	4.675	–
Series VI	March 3, 2009	March 19, 2009	April 15, 2009	US$0.09925	–
	June 9, 2009	June 25, 2009	July 15, 2009	0.09925	–
Charged to income					–
10% Cumulative Convertible Preferred Stock					
Series CC	January 27, 2009	February 26, 2009	March 31, 2009	Php1.00	17
Series DD	January 27, 2009	February 13, 2009	February 27, 2009	1.00	3
Series EE	March 31, 2009	April 30, 2009	May 29, 2009	1.00	–
					20
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 27, 2009	February 20, 2009	March 15, 2009	Php–	12
	May 5, 2009	May 22, 2009	June 15, 2009	–	13
					25
Common Stock					
Regular Dividend	March 3, 2009	March 18, 2009	April 21, 2009	Php70.00	13,124
Special Dividend	March 3, 2009	March 18, 2009	April 21, 2009	60.00	11,249
					24,373
Charged to retained earnings					24,418

Dividends Declared after June 30, 2010 (Unaudited)

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
					(in million pesos)
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	August 3, 2010	August 18, 2010	September 15, 2010	Php–	12
10% Cumulative Convertible Preferred Stock					
Series A, I, R, W, AA and BB	July 7, 2010	August 5, 2010	August 31, 2010	1.00	128
Series B, F, Q, V and Z	August 3, 2010	September 2, 2010	September 30, 2010	1.00	90
Series E, K, O and U	August 31, 2010	September 30, 2010	October 29, 2010	1.00	44
					262
Common Stock					
Regular Dividend	August 3, 2010	August 19, 2010	September 21, 2010	Php78.00	14,570
					14,844

* *Dividends were declared based on total amount paid up.*

20. Interest-bearing Financial Liabilities

This account consists of the following:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 4, 5, 9, 23, 26 and 28)	**82,215**	86,066
Obligations under finance lease (Notes 3, 4, 5, 23, 26 and 28)	**10**	13
	82,225	86,079
Current portion of interest-bearing financial liabilities:		
Notes payable (Notes 4, 5, 23, 26 and 28)	**186**	2,279
Long-term debt maturing within one year (Notes 4, 5, 9, 23, 26 and 28)	**10,955**	10,384
Obligations under finance lease maturing within one year (Notes 3, 4, 5, 26 and 28)	**7**	51
	11,148	12,714

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities are as follows:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Long-term debt (Note 28)	**3,534**	3,858
Obligation under finance lease	**2**	3
Unamortized debt discount at end of period	**3,536**	3,861

The following table describes all changes to unamortized debt discount.

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Unamortized debt discount at beginning of period	**3,861**	4,577
Additions during the period	**97**	182
Revaluations during the period	**66**	22
Accretion during the period included as part of "Financing costs – net – Accretion on financial liabilities" (Note 5)	**(488)**	(920)
Unamortized debt discount at end of period	**3,536**	3,861

Long-term Debt

Long-term debt consists of:

Description	Interest Rates	June 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Finnvera, Plc, or Finnvera	2.99% and US$ LIBOR + 0.05% to 1.35% in 2010 and US$ LIBOR + 0.05% to 1.35% in 2009	**US$91**	**Php4,235**	US$58	Php2,681
Exportkreditnamnden, or EKN	3.79% in 2010 and 2009	**16**	**755**	18	860
Kreditanstalt für Wiederaufbau, or KfW	US$ LIBOR + 0.65% to 2.50% in 2010 and 5.65% and US$ LIBOR + 0.65% to 2.50% in 2009	**10**	**485**	31	1,454
		117	**5,475**	107	4,995
Fixed Rate Notes	8.35% to 11.375% in 2010 and 2009	**375**	**17,394**	385	17,876
Term Loans:					
Debt Exchange Facility	2.25% in 2010 and 2009	**216**	**10,047**	209	9,725
GSM Network Expansion Facilities	4.515% to 4.70% and US$ LIBOR + 0.42% to 1.85% in 2010 and 4.49% to 4.70% and US$ LIBOR + 0.42% to 1.85% in 2009	**127**	**5,879**	157	7,274
Others	2.79% + swap rate and US$ LIBOR + 0.42% to 0.50% in 2010 and 6%; 2.79% + swap rate and US$ LIBOR + 0.42% to 0.50% in 2009	**102**	**4,723**	118	5,484
		US$937	**43,518**	US$976	45,354
Philippine Peso Debts:					
Corporate Notes	5.625% to 9.1038% and PDST-F + 1.25% in 2010 and 2009		**24,840**		24,863
Term Loans:					
Unsecured Term Loans	6.125% to 8.7792% and PDST-F + 0.75% to 1.50% in 2010 and 2009		**24,680**		26,088
Secured Term Loans	PDST-F + 1.375% and AUB's prime rate in 2010 and PDST-F + 5.70% + Bank's cost of funds; PDST-F + 1.375% and AUB's prime rate in 2009		**132**		145
			49,652		51,096
Total long-term debt			**93,170**		96,450
Less portion maturing within one year (Note 28)			**10,955**		10,384
Noncurrent portion of long-term (Note 28)			**Php82,215**		Php86,066

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at June 30, 2010 are as follows:

	U.S. Dollar Debt		Php Debt	Total
Year	**In U.S. Dollar**	**In Php**	**In Php**	**In Php**
	(in millions)			
2010[(1)]	70	3,227	2,131	5,358
2011	104	4,806	7,900	12,706
2012	234	10,885	9,627	20,512
2013	59	2,762	9,027	11,789
2014 and onwards	545	25,280	21,059	46,339
	1,012	46,960	49,744	96,704

[(1)] *July 1, 2010 through December 31, 2010.*

U.S. Dollar Debts:

Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

Finnvera, Plc, or Finnvera

On February 11, 2005, Smart signed a refinancing facility with Finnish Export Credit, Plc, as Lender, and ING Bank N.V., as Arranger and Facility Agent under an export credit agency-backed facility in connection with Smart's GSM expansion program. This facility was covered by a guarantee from Finnvera, the Finnish Export Credit Agency, for 100% of the political and commercial risk for the refinancing facility of GSM Phases 5A and 5B. The facility was payable in equal semi-annual payments over five years starting September 1, 2005 and was fully paid on March 1, 2010. The principal benefit of refinancing the Phase 5 loan was the savings from a lower interest margin on the refinancing facility.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. As at June 30, 2010, US$45 million (US$43 million, net of unamortized debt discount of US$2 million), or Php2,089 million (Php2,023 million, net of unamortized debt discount of Php66 million), remained outstanding.

On October 9, 2009, Smart signed a US$50 million five-year term loan facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at June 30, 2010, US$50 million (US$48 million, net of unamortized debt discount of US$2 million), or Php2,321 million (Php2,212 million, net of unamortized debt discount of Php109 million), remained outstanding.

Exportkreditnamnden, or EKN

On November 25, 2008, Smart signed a US$22 million five-year term loan facility to finance the supply, installation, commissioning and testing of Wireless Code Division Multiple Access, or W-CDMA/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent and subsequently assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN on December 10, 2008. The amounts of US$8 million, US$13 million and US$1 million were drawn on December 15, 2008, August 5, 2009 and September 1, 2009, respectively. This facility is payable semi-annually in ten equal installments commencing six months from December 10, 2008. As at June 30, 2010, the outstanding balance under the facility amounted to US$17 million (US$16 million, net of unamortized debt discount of US$1 million) or Php780 million (Php755 million, net of unamortized debt discount of Php25 million).

Kreditanstalt für Wiederaufbau, or KfW

As at June 30, 2010, we owed an aggregate principal amount of US$10 million, or Php485 million, to KfW, a German state-owned development bank, as follows:

- US$8 million provided in connection with the US$149 million refinancing facility discussed below; and

- US$2 million provided for the 15% downpayment portion and credit facilities without guarantee/insurance cover from the export credit agencies, of which US$1 million was in connection with the US$149 million refinancing facility discussed in the following paragraphs.

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. On various dates from 2002 to 2004, we had drawn a total of US$140 million under this facility. PLDT waived further disbursements under this refinancing facility effective September 1, 2004 and the undrawn portion of US$9 million was cancelled.

From the outstanding amount of US$10 million as at June 30, 2010, approximately US$1 million was paid on July 21, 2010 and approximately US$9 million will mature on October 15, 2010. Principal amortizations on these loans are payable in equal semi-annual installments.

Fixed Rate Notes

PLDT has the following non-amortizing fixed rate notes outstanding:

Principal Amount	Interest Rate	Maturity Date	June 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
			(in millions)			
US$234,259,000	8.350%	March 6, 2017	**US$232**	**Php10,747**	US$242	Php11,256
US$145,789,000	11.375%	May 15, 2012	**143**	**6,647**	143	6,620
			US$375	**Php17,394**	US$385	Php17,876

Term Loans

US$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from PCEV's creditors approximately US$289 million, or 69.4%, the aggregate of PCEV's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid an amount in cash of US$1.5 million, or Php84 million and issued new debt of US$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million.

As at June 30, 2010, the outstanding balance of the Facility amounted to US$280 million (US$216 million, net of unamortized debt discount of US$64 million), or Php13,005 million (Php10,047 million, net of unamortized debt discount of Php2,958 million). The Facility will be payable in full on June 30, 2014.

GSM Network Expansion Facilities

On August 8, 2005, Smart signed a US$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US$30 million. As at June 30, 2010, the amount of US$9 million (US$9 million, net of unamortized debt discount of US$14 thousand), or Php418 million (Php417 million, net of unamortized debt discount of Php1 million), remained outstanding.

On August 10, 2005, Smart signed a loan facility for its GSM Phase 8 financing in the amount of US$70 million. The facility was awarded to the Bank of Tokyo Mitsubishi Ltd., Mizuho Corporate Bank Ltd., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers, with Finnish Export Credit, Plc as the Lender. Smart opted to utilize only a total of US$67 million of which US$10 million and US$57 million were drawn on February 15, 2006 and March 13, 2006, respectively. The undrawn balance of US$3 million was cancelled. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on September 1, 2010. The outstanding balance as at June 30, 2010 amounted to US$7 million (US$7 million, net of unamortized debt discount of US$4 thousand), or Php339 million (Php339 million, net of unamortized debt discount of Php203 thousand), and was fully paid on September 1, 2010.

On July 31, 2006, Smart signed a U.S. Dollar term loan facility for US$44.2 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is Finnish Export Credit, Plc with ABN AMRO Bank N.V., Standard Chartered Bank, Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the Lead Arrangers. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on July 15, 2011. The facility was drawn on November 10, 2006 for the full amount of US$44.2 million. As at June 30, 2010, US$13 million (US$13 million, net of unamortized debt discount of US$23 thousand), or Php616 million (Php615 million, net of unamortized debt discount of Php1 million), remained outstanding.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of US$50 million. The facility is a five-year loan payable in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on October 10, 2012. The facility was drawn on October 10, 2007 for the full amount of US$50 million. As at June 30, 2010, US$28 million (US$28 million, net of unamortized debt discount of US$6 thousand), or Php1,289 million (Php1,289 million, net of unamortized debt discount of Php256 thousand), remained outstanding.

On October 10, 2007, Smart signed a US$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch as the Original Lender with Standard Chartered Bank (Hong Kong) Ltd. as the Facility Agent. The full amount of the facility was drawn on March 10, 2008. The loan is payable over five years in ten equal semi-annual payments with final repayment on March 11, 2013. As at June 30, 2010, US$30 million (US$30 million, net of unamortized debt discount of US$134 thousand), or Php1,393 million (Php1,387 million, net of unamortized debt discount of Php6 million), remained outstanding.

On November 27, 2008, Smart signed a US$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with Finnish Export Credit, Plc. The facility was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered Bank, Mizuho Corporate Bank Ltd. as the Lead Arrangers. The loan is payable over five years in ten equal semi-annual installments with final repayment on January 23, 2014. The facility was drawn on January 23, 2009 and May 5, 2009 in the amounts of US$5 million and US$45 million, respectively. As at June 30, 2010, US$40 million (US$40 million, net of unamortized debt discount of US$500 thousand), or Php1,857 million (Php1,832 million, net of unamortized debt discount of Php25 million), remained outstanding.

Other Term Loans

On January 15, 2008, PLDT signed a US$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. Two separate drawings of US$50 million each was drawn from the facility on March 27, 2008 and April 10, 2008 and this term loan is payable over five years in ten equal semi-annual installments with final repayment on March 27, 2013. As at June 30, 2010, US$60 million, or Php2,785 million, remained outstanding.

On July 15, 2008, PLDT signed a loan agreement amounting to US$50 million with the Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US$15 million and the balance of US$35 million was drawn on September 30, 2008. This loan is payable in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on July 22, 2013. As at June 30, 2010, US$38 million, or Php1,775 million, remained outstanding.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East for a total of US$19 million, which will mature on various dates from June 30, 2013 to September 30, 2014. As at June 30, 2010, US$4 million, or Php163 million, remained outstanding.

Philippine Peso Debts:

Corporate Notes

Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes have been used primarily for Smart's capital expenditures for network improvement and expansion. The amount of Php4,976 million (Php4,959 million, net of unamortized debt discount of Php17 million) remained outstanding as at June 30, 2010.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart's capital expenditures for network upgrade and expansion. The amount of Php4,950 million (Php4,912 million, net of unamortized debt discount of Php38 million) remained outstanding as at June 30, 2010.

Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility were used to finance capital expenditures of PLDT. The aggregate amount of Php4,976 million remained outstanding as at June 30, 2010.

Php3,000 Million Corporate Notes

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 million of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php3,000 million (Php2,993 million, net of unamortized debt discount of Php7 million) remained outstanding as at June 30, 2010.

Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the 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 aggregate amount of Php7,000 million remained outstanding as at June 30, 2010.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, PLDT issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 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.

Php2,500 Million Fixed Rate Corporate Notes

On July 13, 2010, Smart issued Php2,500 million five-year fixed rate corporate notes under a Notes Facility Agreement dated July 12, 2010 to mature on July 13, 2015. Proceeds from the facility will be used primarily to finance Smart's capital expenditures for network improvement and expansion.

Term Loans

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On August 14, 2006, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company amounting to Php2,500 million to finance the related Phase 9 GSM facility. The facility is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on December 9, 2011. The facility was drawn on December 11, 2006. The outstanding balance of this loan as at June 30, 2010 amounted to Php833 million (Php832 million, net of unamortized debt discount of Php1 million).

Php400 Million and Php20 Million Refinancing Loans

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the ten-year note under the Php1,270 million Fixed Rate Corporate Notes which were repaid on June 12, 2007. Both refinancing loans will mature on June 12, 2014. The amounts of Php400 million and Php20 million remained outstanding as at June 30, 2010.

Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php2,500 million, which was drawn in full on November 13, 2008. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on November 13, 2013. The amount of Php2,187 million (Php2,181 million, net of unamortized debt discount of Php6 million) remained outstanding as at June 30, 2010.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The total amount of Php1,789 million remained outstanding as at June 30, 2010.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The total amount of Php2,333 million remained outstanding as at June 30, 2010.

Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million and the balance of Php1,500 million was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on December 19, 2013. The total amount of Php1,647 million remained outstanding as at June 30, 2010.

Php1,000 Million Term Loan Facility

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The first installment will commence on October 27, 2010 with final repayment on April 25, 2014. The entire amount of Php1,000 million (Php997 million, net of unamortized debt discount of Php3 million) remained outstanding as at June 30, 2010.

Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at June 30, 2010.

Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures. The amount of Php1,500 million (Php1,493 million, net of unamortized debt discount of Php7 million) was fully drawn on May 20, 2009 and remained outstanding as at June 30, 2010. The facility is a three-year loan payable in full upon maturity on May 20, 2012.

Php1,000 Million Term Loan Facility

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at June 30, 2010.

Php1,000 Million Term Loan Facility

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full upon maturity on July 2, 2016. The entire amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at June 30, 2010.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at June 30, 2010.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009 and remained outstanding as at June 30, 2010.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at June 30, 2010.

Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The entire amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at June 30, 2010.

Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. As at June 30, 2010, the outstanding balance of the loan was Php2,000 million.

Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php1,000 million to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009 and remained outstanding as at June 30, 2010.

Secured Term Loans

Php150 Million Term Loan Facility

On June 7, 2007, BayanTrade obtained a medium term loan facility with Bank of the Philippine Islands amounting to Php150 million, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. BayanTrade is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. BayanTrade and the bank has agreed to the following terms: (a) pledge of BayanTrade's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of BayanTrade. As at June 30, 2010, the outstanding principal balance of the loan was Php127 million.

Php8 Million Term Loan Facility

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installments of Php673 thousand starting June 30, 2009 and every quarter thereafter. This loan has a floating interest rate payable every 30 days starting April 30, 2009. The loan is secured by the equipment where the proceeds of the loan were used. The amount of Php5 million remained outstanding as at June 30, 2010.

Notes Payable

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and were fully paid on April 28, 2010.

As at June 30, 2010, SPi had an outstanding balance of short-term notes of US$4 million, or Php186 million which will mature on various dates from October 22, 2010 to November 18, 2010.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries, and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 47% of PLDT's total consolidated debts as at June 30, 2010 was denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) prepaying other debt; (c) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (d) creating any lien or security interest; (e) permitting set-off against amounts owed to PLDT; (f) merging or consolidating with any other company; (g) entering into transactions with stockholders and affiliates; and (h) entering into sale and leaseback transactions.

Further, 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.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the abandonment, termination or amendment of the project financed by a loan in a manner unacceptable to the lender; (f) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (g) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. The financial tests under Smart's loan agreements include compliance with a consolidated debt to consolidated equity ratio of not more than 1.5:1.0, a consolidated debt to consolidated EBITDA ratio of not more than 3:1 and a debt service coverage ratio of not less than 1.5:1.0. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair guarantors' ability to perform their obligations under its loan agreements.

As at June 30, 2010, we were in compliance with all of our debt covenants.

Obligations Under Finance Lease

The consolidated future minimum payments for finance leases as at June 30, 2010 are as follows:

Year	(in million pesos)
2010[1]	4
2011	7
2012	5
2013 and onwards	3
Total minimum finance lease payments (Note 26)	19
Less amount representing interest	2
Present value of net minimum finance lease payments (Notes 3 and 28)	17
Less obligations under finance lease maturing within one year (Notes 9 and 28)	7
Long-term portion of obligations under finance lease (Notes 9 and 28)	10

[1] *July 1, 2010 through December 31, 2010.*

Municipal Telephone Projects

PCEV has an existing finance lease agreement for the Palawan Telecommunications System of the Municipal Telephone Project Office, or MTPO, with the DOTC. Presently, the 18 public calling office stations that were put up pursuant to the MTPO Contract are no longer working. The last payment by PCEV to the DOTC was in July 2000 and no payments have been made since then. PCEV made several attempts to pre-terminate the MTPO Contract in letters to the DOTC where PCEV also manifested its willingness to discuss mutually beneficial compromise agreements for the pre-termination.

The DOTC denied PCEV's petition and reiterated a provision in the MTPO Contract that the pre-termination will result in the imposition of sanctions in the form of liquidated damages not exceeding Php23 million.

PCEV maintains that it had pre-terminated the MTPO Contract as early as 2003, and that the issue of PCEV's pre-termination of the MTPO Contract be referred for arbitrations in accordance with the provisions of the MTPO Contract.

On May 8, 2009, PCEV filed with the Philippine Dispute Resolution Center, Inc., or PDRCI, a Request for Arbitration against the DOTC for the PDRCI to commence the formation of the tribunal and such other procedures required under the PDRCI rules. In the Request for Arbitration, PCEV prayed for the following: (1) as interim relief: ordering the DOTC to cease and desist from enforcing collection and charging additional interests and penalties against PCEV pending the resolution of the arbitration proceedings; and (2) as final relief: (a) ordering the suspension of the MTPO Contract; (b) ordering the termination of the MTPO Contract as at March 20, 2003 and holding PCEV free from any liability for non-performance of the obligations thereunder from March 20, 2003; and (c) ordering the DOTC to pay PCEV attorney's fees and the expenses and cost of arbitration.

Last April 13, 2010, the Arbitral Tribunal issued a Final Award for the arbitration case. In the Disposition portion of the Final Award, the Arbitral Tribunal declared valid and justified PCEV's suspension of the MTPO contract as at March 20, 2003 on the basis of Section 9.3 (Force Majeure) of the MTPO contract, thereby holding PCEV free from liquidated damages for non-performance of the obligations thereunder. PCEV, however, was ordered to pay the DOTC the unpaid annual lease rentals after September 2000 to January 14, 2003 in the amount of Php5.2 million as well as interest and penalties of Php2 million for non-payment of such rentals. Further, PCEV was declared as entitled to the automatic transfer of the ownership of the facilities as provided in Section 7.8 of the MTPO contract. Accordingly, PCEV shall pay DOTC 50% of the Net Present Value of the unpaid lease up to 30 years in the amount of Php21.3 million for the facilities.

The total amount to be paid by PCEV to DOTC is Php28.5 million. From this amount, advances of PCEV for the account of DOTC amounted to Php1.0 million. These are arbitration expenses and site inspections costs which would leave a balance of Php27.5 million, or 95% of this balance, in the amount of Php26.1 million shall be released directly to DOTC and the remaining 5% in the amount of Php1.4 million shall be remitted to the Bureau of Treasury to be recorded under Fund Code 152, Special Account of the General Fund for the Office of the Solicitor General.

On April 30, 2010, PCEV filed a Petition for Confirmation of the Award with the Regional Trial Court of Mandaluyong City. In a Manifestation and Motion filed by the DOTC in the same court, the DOTC joined PCEV in the latter's Petition for Confirmation of the Award. The Petition is now submitted for resolution. Once the confirmation from the court is received, PCEV will sign an agreement with the DOTC for the transfer of the facilities to PCEV and pay the amounts due as stated in the Final Award.

Other Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and ePLDT have finance lease obligations in the aggregate amount of Php19 million and Php24 million as at June 30, 2010 and December 31, 2009, respectively, in respect of office equipment. See *Note 9 – Property, Plant and Equipment.*

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume or permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

21. Deferred Credits and Other Noncurrent Liabilities

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**11,920**	11,966
Provision for asset retirement obligations (Notes 3 and 9)	**1,278**	1,204
Contingent consideration for business acquisitions – net of current portion (Notes 13, 14 and 23)	**263**	1,193
Unearned revenues (Note 23)	**92**	66
Others	**8**	9
	13,561	14,438

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to the liabilities on asset retirement:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Provision for asset retirement obligations at beginning of period	**1,204**	1,100
Accretion expenses for the period	**46**	94
Additional liability recognized during the period	**30**	17
Settlement of obligations	**(2)**	(7)
Provision for asset retirement obligations at end of period (Note 3)	**1,278**	1,204

Contingent Consideration for Business Acquisitions

Contingent consideration for business acquisitions were recognized in relation to SPi's acquisition cost of Springfield and Laguna Medical on April 12, 2007 and August 31, 2009, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 13 – Business Combinations and Acquisition of Non-Controlling Interests, Note 14 – Goodwill and Intangible Assets* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

SPi acquired 100% of Springfield plus contingent consideration with fair value at acquisition date of US$18 million, or Php894 million. As at June 30, 2010 and December 31, 2009, the adjusted fair value of contingent consideration, as revised after effecting adjustments on forecasted earn-out and accretion, amounted to US$22 million, or Php1,017 million, and US$20.5 million, or Php951 million, respectively.

SPi acquired 80% of Laguna Medical with a mandatory Put-Call option in respect of the remaining 20% of the outstanding common stock of Laguna Medical. The estimated fair value of the contingent consideration from the mandatory Put-Call option at the acquisition date amounted to US$5.4 million, or Php257 million. As at June 30, 2010, the adjusted fair value of contingent consideration after the accretion amounted to US$6 million, or Php263 million.

Movements in contingent consideration for business acquisitions are as follows:

	June 30, 2010		December 31, 2009	
	(Unaudited)		(Audited)	
	In U.S. Dollar	**In Php**	In U.S. Dollar	In Php
	(in millions)			
Balance at beginning of period	**26**	**1,207**	15	720
Accretion for the period	**2**	**79**	3	142
Payments	**–**	**(6)**	–	(13)
Translation	**–**	**–**	–	(31)
Business combinations (Note 13)	**–**	**–**	8	389
Balance at end of period	**28**	**1,280**	26	1,207
Less current portion of contingent consideration for business acquisitions (Note 23)	**22**	**1,017**	–	14
Contingent consideration for business acquisitions – net of current portion	**6**	**263**	26	1,193

22. Accounts Payable

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Suppliers and contractors (Notes 26 and 28)	**12,746**	14,975
Carriers (Notes 26 and 28)	**1,936**	1,937
Taxes (Notes 27 and 28)	**1,697**	1,894
Related parties (Notes 24, 26 and 28)	**109**	233
Others	**216**	562
	16,704	19,601

23. Accrued Expenses and Other Current Liabilities

This account consists of:

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	(in million pesos)	
Accrued utilities and related expenses (Notes 24, 26 and 28)	**18,734**	17,549
Unearned revenues (Note 21)	**4,230**	4,588
Accrued employee benefits (Notes 3, 25, 26 and 28)	**3,818**	8,074
Accrued taxes and related expenses (Notes 26 and 27)	**2,330**	1,941
Accrued interests and other related costs (Notes 20, 26 and 28)	**1,072**	1,167
Current portion of contingent consideration for business acquisitions (Notes 13, 14 and 21)	**1,017**	14
Installment payable for purchase of equity investment (Notes 13 and 28)	**–**	65
Others (Note 10)	**2,458**	2,048
	33,659	35,446

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

24. Related Party Transactions

a. *Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998 (as amended, the "Original ATPA"), PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time (the "Minimum Air Time Purchase Obligation") annually over ten years commencing on January 1, 2002 (the "Minimum Purchase Period"), the expected date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US$15 million per year during the Minimum Purchase Period (the "Supplemental Air Time Purchase Obligation").

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks (the "Amended ATPA"). Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT (the "Amended Minimum Air Time Purchase Obligation") to purchase from AIL a minimum of US$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date.

Total fees under the Amended ATPA amounted to Php65 million and Php85 million for the six months ended June 30, 2010 and 2009, respectively. As at June 30, 2010 and December 31, 2009, outstanding obligations of PLDT under the Amended ATPA amounted to Php133 million and Php114 million, respectively. See *Note 5 – Income and Expenses*.

b. *Agreements between PLDT and certain subsidiaries with Meralco*

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to Php871 million for the six months ended June 30, 2010 (PCEV acquired a 20% equity interest in Meralco on July 14, 2009). As at June 30, 2010 and December 31, 2009, outstanding utilities payable amounted to Php111 million and Php188 million, respectively.

In 2009, PLDT and Smart renewed their respective Pole Attachment Contracts with Meralco, wherein Meralco leases its pole spaces to accommodate PLDT's and Smart's cable network facilities. Total fees under these contracts amounted to Php75 million for the six months ended June 30, 2010 (PCEV acquired a 20% equity interest in Meralco on July 14, 2009). As at June 30, 2010, there are no outstanding obligations while as at December 31, 2009, outstanding obligations under these contracts amounted to Php135 million, respectively.

See also *Note 10 – Investments in Associates and Joint Ventures* for additional transactions involving Meralco.

c. *Transactions with Major Stockholders, Directors and Officers*

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at June 30, 2010 (unaudited) and December 31, 2009 (audited) and for the six months ended June 30, 2010 and 2009 (unaudited) are as follows:

1. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DoCoMo*

   In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DoCoMo, the FP Parties, NTT Communications and NTT DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DoCoMo, including:

   - certain contractual veto rights over a number of major decisions or transactions; and

   - rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DoCoMo*. Each of NTT Communications and NTT DoCoMo has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

- *Limitation on Competition*. NTT Communications, NTT DoComo and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DoCoMo with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- *Business Cooperation*. PLDT and NTT DoCoMo agreed in principle to collaborate with each other on the business development, roll-out and use of a W-CDMA mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DoCoMo.

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

    1. NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

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

    As at June 30, 2010, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT's outstanding common stock.

- *Change in Control*. Each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DoCoMo, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DoCoMo in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DoCoMo or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

2. *Integrated i-mode Services Package Agreement between NTT DoCoMo and Smart*

An Integrated i-mode Services Package Agreement was entered into by Smart and NTT DoCoMo on February 15, 2006, under which NTT DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from NTT DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. There was no royalty fees for the six months ended June 30, 2010 and 2009. Smart has no outstanding obligation under this agreement as at June 30, 2010 and December 31, 2009.

3. *Advisory Service Agreement between NTT DoCoMo and PLDT*

An Advisory Services Agreement was entered into by NTT DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php38 million and Php43 million for the six months ended June 30, 2010 and 2009, respectively. As at June 30, 2010 and December 31, 2009, outstanding obligations of PLDT under this agreement amounted to Php6 million each.

4. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses; and

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant.

Total fees under these agreements amounted to Php55 million and Php58 million for the six months ended June 30, 2010 and 2009, respectively. As at June 30, 2010 and December 31, 2009, outstanding obligations of PLDT under these agreements amounted to Php33 million and Php39 million, respectively.

5. *Agreements between Smart and Asia Link B.V., or ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which upon its expiration on February 23, 2008 was renewed until February 23, 2012 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to 1% of the consolidated net revenues of Smart. Total service fees charged to operations under this agreement amounted to Php313 million and Php322 million for the six months ended June 30, 2010 and 2009, respectively. As at June 30, 2010 and December 31, 2009, outstanding obligations of Smart under this agreement amounted to Php48 million and Php188 million, respectively.

6. *Agreements Relating to Insurance Companies*

Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php186 million and Php240 million for the six months ended June 30, 2010 and 2009, respectively. Two directors of PLDT have direct/indirect interests in or serve as a director/officer of Gotuaco and Malayan.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type for the period is as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Short-term employee benefits	**279**	272
Share-based payments and other long-term employee benefits (Note 25)	**134**	156
Post-employment benefits (Note 25)	**7**	17
Total compensation paid to key officers of the PLDT Group	**420**	445

In 2008, each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php125 thousand for each meeting of the board attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php50 thousand for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved the increase in director's fee to Php200 thousand for board meeting attendance and to Php75 thousand for Board Committee meeting attendance. The director's fee was last adjusted in July 1998.

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.

25. Share-based Payments and Employee Benefits

LTIP

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 Performance Cycle and a cumulative consolidated net income target for the 2007 to 2009 Performance Cycle.

The value of the reward and accrued as at December 31, 2009, was computed in accordance with the formula prescribed in 2007 to 2009 LTIP, subject to the minimum and maximum award level to be granted, following the terms and formula as described therein. The fair value of the 2007 to 2009 LTIP were estimated using an option pricing model, which considered annual stock volatility, risk-free interest rates, dividends yield, the remaining life of options and share price. Cost per share for the 2007 to 2009 LTIP as at June 30, 2009 amounted to Php997, which was based on the computed minimum award level. The fair value of the 2007 to 2009 LTIP recognized as expense for the six months ended June 30, 2009 amounted to Php882 million. As at December 31, 2009, outstanding 2007 to 2009 LTIP liability amounted to Php4,582 million, which was paid in April 2010. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions, Note 5 – Income and Expenses, Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 26 – Contractual Obligations and Commercial Commitments*.

The new LTIP, or 2010 to 2012 LTIP, has been presented to and approved by the ECC and Board of Directors, and is based on profit targets within the Performance Cycle. Total outstanding liability and fair value of 2010 to 2012 LTIP cost for the six months ended June 30, 2010 amounted to Php694 million.

Pension

Defined Benefit Pension Plans

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

Our actuarial valuation is performed every year-end. Based on the latest actuarial valuation, the actual present value of accrued (prepaid) benefit costs, net periodic benefit costs and average assumptions used in developing the valuation are as follows:

	(in million pesos)
Present value of defined benefit obligations as at December 31, 2009 (Audited)	17,399
Fair value of plan assets as at December 31, 2009 (Audited)	19,980
Surplus status – net	(2,581)
Unrecognized net actuarial losses (Note 3)	(2,474)
	(5,055)
Actuarial pension costs during the period	117
Contributions	(37)
	(4,975)
Accrued benefit costs as at June 30, 2010 (Unaudited) (Note 3)	369
Prepaid benefit costs as at June 30, 2010 (Unaudited) (Notes 3 and 18)	5,344

Net periodic benefit costs were computed as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Components of net periodic benefit costs:		
Interest costs	**779**	596
Current service costs	**496**	321
Amortizations of unrecognized net actuarial loss (gain)	**11**	(1)
Expected return on plan assets	**(1,169)**	(337)
Net periodic benefit costs (Notes 3 and 5)	**117**	579

Actual return on plan assets amounted to gain of Php4,036 million for the year ended December 31, 2009.

The weighted average assumptions used to determine pension benefits as at June 30, 2010 (unaudited) and December 31, 2009 (audited) are as follows:

Average remaining working years of covered employee	18
Expected rate of return on plan assets	12%
Discount rate	9%
Rate of increase in compensation	9%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

As at June 30, 2010 and December 31, 2009, the assets of the beneficial trust fund established for PLDT's pension plan include investments in shares of stocks of PLDT with a fair value amounting to Php424 million and Php430 million, respectively, which represent about 2% each of such beneficial trust fund's assets available for plan benefits.

The Board of Trustees of the beneficial trust fund uses an investment approach of mixed equity and fixed income investments to maximize the long-term expected return of plan assets. The investment portfolio has been structured to achieve the objective of regular income with capital growth and out-performance of benchmarks. A majority of the investment portfolio consists of various equity securities and fixed income debt securities, while the remaining portion consists of multi-currency investments.

The allocation of the fair value of the beneficial trust fund's assets for the PLDT pension plan follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
Investments in listed and unlisted equity securities	**73%**	78%
Investments in temporary placements	**19%**	7%
Investments in real estate	**5%**	5%
Investments in debt and fixed income securities	**2%**	9%
Investments in mutual funds	**1%**	1%
	100%	100%

Total contribution of PLDT to the pension plan for the year ended December 31, 2009 amounted to Php8,848 million, which was used to invest in various listed and unlisted equity securities. As a result of the contributions in 2009, PLDT expects substantial reduction in net periodic benefit costs moving forward. In addition, PLDT does not expect to make contributions to the beneficial trust fund in the next few years.

Defined Contribution Plan

Smart and I-Contacts contributions to the plan are made based on the employee's years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and I-Contacts regularly monitor compliance with R.A. 7641, otherwise known as "The Retirement Pay Law". As at June 30, 2010 and 2009, Smart and I-Contacts were in compliance with the requirements of R.A. 7641.

The plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The allocation of the fair value of the beneficial trust fund's assets for Smart and I-Contacts pension plan is as follows:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
Investments in debt and fixed income securities	**59%**	61%
Investments in listed and unlisted equity securities	**37%**	34%
Others	**4%**	5%
	100%	100%

Smart and I-Contacts currently expect to make approximately Php190 million of cash contributions to their pension plans in 2010.

Pension Benefit Costs

Total consolidated pension benefit costs for the period is as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Expense recognized for defined benefit plans	**117**	579
Expense recognized for defined contribution plans	**13**	84
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	**130**	663

26. Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual undiscounted obligations outstanding:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in million pesos)				
June 30, 2010 (Unaudited)					
Debt[(1)]:	*120,993*	*2,331*	*55,450*	*39,014*	*24,198*
Principal	96,890	2,010	40,629	33,820	20,431
Interest	24,103	321	14,821	5,194	3,767
Lease obligations:	*7,958*	*4,369*	*1,729*	*976*	*884*
Operating lease	7,939	4,366	1,714	975	884
Finance lease	19	3	15	1	–
Unconditional purchase obligations[(2)]	*830*	*203*	*279*	*279*	*69*
Other obligations:	*58,477*	*39,852*	*14,395*	*727*	*3,503*
Derivative financial liabilities[(3)]:	4,171	–	1,995	713	1,463
Long-term currency swaps	4,171	–	1,995	713	1,463
Various trade and other obligations:	54,306	39,852	12,400	14	2,040
Suppliers and contractors	24,666	12,746	11,920	–	–
Utilities and related expenses	15,818	15,760	26	5	27
Employee benefits	3,802	3,802	–	–	–
Customers' deposits	2,213	–	191	9	2,013
Carriers	1,936	1,936	–	–	–
Dividends	1,852	1,852	–	–	–
Others	4,019	3,756	263	–	–
Total contractual obligations	**188,258**	**46,755**	**71,853**	**40,996**	**28,654**
December 31, 2009 (Audited)					
Debt[(1)]:	*130,075*	*5,241*	*56,398*	*38,073*	*30,363*
Principal	102,587	4,876	40,226	31,953	25,532
Interest	27,488	365	16,172	6,120	4,831
Lease obligations:	*7,564*	*3,778*	*1,956*	*994*	*836*
Operating lease	7,497	3,730	1,940	991	836
Finance lease	67	48	16	3	–
Unconditional purchase obligations[(2)]	*834*	*137*	*279*	*279*	*139*
Other obligations:	*64,456*	*44,322*	*15,528*	*826*	*3,780*
Derivative financial liabilities[(3)]:	4,759	–	2,153	789	1,817
Long-term currency swaps	4,759	–	2,153	789	1,817
Various trade and other obligations:	59,697	44,322	13,375	37	1,963
Suppliers and contractors	26,941	14,975	11,966	–	–
Utilities and related expenses	14,737	14,687	18	5	27
Employee benefits	8,082	8,082	–	–	–
Customers' deposits	2,166	–	198	32	1,936
Carriers	1,937	1,937	–	–	–
Dividends	1,749	1,749	–	–	–
Others	4,085	2,892	1,193	–	–
Total contractual obligations	**202,929**	**53,478**	**74,161**	**40,172**	**35,118**

(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. See Note 24 – Related Party Transactions.*
(3) *Gross liabilities before any offsetting application.*

Debt

See *Note 20 – Interest-bearing Financial Liabilities* for a detailed discussion of our debt.

Operating Lease Obligations

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius

PLDT entered into a license agreement with Mobius pursuant to which Mobius granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, PLDT may purchase maintenance services for a fee of 15% of the current published license fee. As at June 30, 2010 and December 31, 2009, PLDT's aggregate remaining obligations under these agreement amounted to approximately Php3 million and Php40 million, respectively.

Other Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment amounting to Php7,936 million and Php7,457 million as at June 30, 2010 and December 31, 2009, respectively.

Finance Lease Obligations

See *Note 20 – Interest-bearing Financial Liabilities* for the detailed discussion of our long-term finance lease obligations.

Unconditional Purchase Obligations

See *Note 24 – Related Party Transactions* for a detailed discussion of PLDT's obligation under the Original ATPA and the Amended ATPA.

As at June 30, 2010 and December 31, 2009, PLDT's aggregate remaining minimum obligation under the Amended ATPA is approximately Php830 million and Php834 million, respectively.

Other Obligations

Derivative Financial Liabilities

See *Note 28 – Financial Assets and Liabilities* for the detailed discussion of our derivative financial liabilities.

Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits related obligations, and various business and operational related agreements. As at June 30, 2010 and December 31, 2009, total obligations under these various agreements amounted to approximately Php54,306 million and Php59,697 million, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

As at June 30, 2010 and December 31, 2009, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php685 million and Php1,317 million, respectively. These commitments will expire within one year.

See *Note 28 – Financial Assets and Liabilities* for discussion of Liquidity Risk Management.

27. Provisions and Contingencies

NTC Supervision and Regulation Fees, or SRF

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's 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, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT on February 29, 2008, the NTC assessed the total amount of SRF due from PLDT to be Php2,870 million, which included penalties and interest. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of Php2,870 million which included penalties. In letters dated April 14, 2008 and June 18, 2008, 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. On September 8, 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment on the Petition. On September 22, 2008, PLDT filed its Reply (To the Comment of the NTC). 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 received a copy of the petition on July 16, 2010. PLDT is still waiting for the order of the Supreme Court to file its comment.

PLDT's Local Business and Franchise Tax Assessments

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082.

PLDT believes that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, PLDT has paid as at June 30, 2010 a total amount of Php914 million for local franchise tax covering prior periods up to June 30, 2010.

As at June 30, 2010, PLDT has no contested assessments of LGUs for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT contested the imposition of local business taxes in addition to local franchise tax by the City of Tuguegarao in the amount of Php1.9 million for the years 1998 to 2003. The Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. The City of Tuguegarao has filed a Motion for Reconsideration which was denied by the court in its Order dated March 2, 2009. The City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT intends to file a motion to dismiss the said appeal on the ground of lack of jurisdiction. The appeal should have been filed before the Court of Tax Appeals, or CTA, and not with the Court of Appeals.

Moreover, PLDT also contested the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction specifically that of the City of Tuguegarao, in the amount of Php3 million for the years 1999 to 2006. The RTC in its decision dated February 25, 2009, ruled in favor of PLDT, stating that the Province of Cagayan can no longer tax PLDT for transactions taking place in the City of Tuguegarao. The Province of Cagayan filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 7, 2009. The Province of Cagayan filed a Motion for Extension of Time to file Petition for Review before the CTA which PLDT opposed for having been filed out of time. The third division of the CTA, in a Resolution dated January 18, 2010, granted the Motion for Extension of the Province of Cagayan and gave due course to the Petition. The same Resolution ordered PLDT to file its Comment on the Petition which PLDT timely filed on February 25, 2010. In a resolution dated April 30, 2010, the court ordered both parties to submit their respective memoranda which PLDT timely complied by filing its memorandum on June 4, 2010.

Smart's Local Franchise Tax and Business Tax Assessments

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati totaling approximately Php312 million, inclusive of surcharges and interests, covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of City of Makati. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In a letter dated March 24, 2008, the Miscellaneous, Taxes, Fees and Charges Division of the City of Makati requested payment for alleged deficiency local franchise tax covering the years 1995 and 1997 to 2003. Smart replied and reiterated its exemption from local franchise tax based on its legislative franchise and the *Smart vs. City of Makati* case, which covered the years 1995 and 1998 to 2001. On March 9, 2009, Smart received another letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, Smart received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1995 and 1997 to 2003. On December 16, 2009 and January 29, 2010, Smart filed its reply letters and refuted the alleged franchise tax liability based on the *Smart vs. City of Makati* case and its BOI registration dated May 3, 2001.

In August 2009, the Business Tax Division of the City of Makati issued a Letter of Authority for the examination of Smart's local tax liabilities covering the years 2006, 2007 and 2008. The City of Makati issued a Notice of Assessment dated October 23, 2009 against Smart for alleged deficiency local business taxes, fees and charges, including interest and penalties, covering the years 2006 to 2008. Smart protested the assessment on December 16, 2009. On February 8, 2010, Smart received the City of Makati's Revised Notice of Assessment, which showed deficiency local franchise and business taxes, including interest and penalties, for the years 2006 to 2008. Smart contested the revised deficiency local tax assessment on February 15, 2010. In a letter dated February 19, 2010, the City of Makati demanded the immediate settlement of the alleged tax liability. On March 3, 2010, Smart requested the City of Makati for a reinvestigation and for it to further evaluate its arguments and supporting documents. Afterwhich, Smart had several meetings with the officials of the City of Makati to discuss its request for reinvestigation. During that period, the City of Makati officials advised Smart that they still need to study and internally discuss the arguments of Smart.

On August 3, 2010, Smart received the City of Makati's Notice of Distraint and Levy dated July 23, 2010. Smart sent a letter to the City of Makati on August 10, 2010 inquiring on the status of Smart's request for reinvestigation and requested for a meeting. On August 19, 2010, Smart's representatives met with the City of Makati officials and they then informed Smart's representatives that its decision on the matter is final.

On September 1, 2010, Smart filed an Appeal with application for the issuance of a Temporary Restraining Order and Writ of Preliminary Injunction before the Regional Trial Court of the City of Makati (Branch 133) docketed as SCA No. 10-852. On September 6, 2010, the Regional Trial Court of the City of Makati (Branch 133) promulgated an Order granting the issuance of a temporary restraining order for 20 days directing the City of Makati and the City Treasurer to maintain the status quo until a hearing can be had to determine the propriety of injunctive relief conditioned upon posting of a Php200 million bond by Smart.

Meanwhile, Smart also received similar local franchise tax assessments issued by the City of Iloilo amounting to approximately Php0.7 million, inclusive of surcharge and penalties. The RTC of Iloilo likewise ruled in favor of Smart in its Decision dated January 19, 2005 (Civil Case No. 02-27144) declaring Smart as exempt from payment of local franchise tax. The City of Iloilo appealed the Decision and the Supreme Court, on February 27, 2009, (G.R. No. 167260) ruled that Smart is liable to pay the local franchise tax to the City of Iloilo. On April 2, 2009, Smart filed its Motion for Reconsideration. On July 1, 2009, the Supreme Court's Special Second Division issued a Resolution denying Smart's Motion for Reconsideration. In accordance with this Decision, Smart paid the City of Iloilo.

In 2002, Smart filed a special civil action for declaratory relief for the ascertainment of its rights and obligations under the Tax Code of the City of Davao. The relevant section of Smart's franchise provided that the grantee shall pay a franchise tax equivalent to 3% of all gross receipts of the business transacted under the franchise by the grantee and the said percentage shall be in lieu of all taxes on the franchise or earnings thereof. On September 16, 2008, the Supreme Court's Third Division ruled that Smart is liable for local franchise tax since the phrase *"in lieu of all taxes"* merely covers national taxes and was rendered inoperative when the VAT law took effect. On October 21, 2008, Smart filed its Motion for Reconsideration. Smart argued that the operative word in the *"in lieu of all taxes"* clause in Smart's franchise is the word *"all"*. The word *"all"* before *"taxes"* in the clause *"in lieu of all taxes"* covers all kinds of taxes, national and local, except only those mentioned in the franchise. Smart also argued that the BIR already clarified in its Revenue Memorandum Circular No. 5-96 dated March 31, 1997 that the VAT merely replaced the franchise tax. On July 21, 2009, the Supreme Court's Third Division promulgated its Resolution denying Smart's Motion for Reconsideration and affirming that Smart is liable to pay local franchise tax to the City of Davao. On June 3, 2010, Smart received a local franchise tax assessment from the City of Davao covering the years from 1997 to 2010. Smart filed on June 21, 2010 its letter of protest against the local franchise tax assessment citing its local tax exemption by virtue of its BOI registration. On July 6, 2010, Smart received a letter from the City of Davao requesting for the submission of additional documents. Smart submitted several documents on August 3, 2010.

With the finality of the Iloilo and Davao cases, several cities and provinces have began discussions with Smart on the settlement of alleged local franchise tax within their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking the prospective application of the Iloilo and Davao decisions and the recognition of its local tax exemption by virtue of its BOI registration issued on May 3, 2001.

PCEV's Local Franchise Tax Assessment

In 2004, PCEV secured a favorable decision from a Trial Court involving the local franchise tax in the City of Makati. In the case entitled *"Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto" (Piltel vs. City of Makati)* (Civil Case No. 01-1760), the Makati Regional Trial Court rendered its Decision dated December 10, 2002 declaring PCEV exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of PCEV, R.A. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the Local Government Code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, PCEV received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, PCEV received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, PCEV filed its reply and refuted the alleged franchise tax liability based on the *Piltel vs. City of Makati* case.

Real Property Tax Assessment

In *Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City*, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

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 simply improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. For this arbitration (after collating various claims of one party against the other) ETPI, on one hand, initially submitted its claims of about Php2.9 billion against PLDT; while PLDT, on the other hand, submitted its claims of about Php2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

Matters Relating to 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 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.

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

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies*.

The following table sets forth our financial assets and financial liabilities:

	Loans and receivables	Held-to-maturity investments	Held-for-trading	Available-for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
				(in million pesos)				
Assets as at June 30, 2010 (Unaudited)								
Noncurrent:								
Property, plant and equipment	–	–	–	–	–	–	157,767	157,767
Investments in associates and joint ventures	–	–	–	–	–	–	22,873	22,873
Available-for-sale financial assets	–	–	–	130	–	130	–	130
Investment in debt securities	–	473	–	–	–	473	–	473
Investment properties	–	–	–	–	–	–	1,098	1,098
Goodwill and intangible assets	–	–	–	–	–	–	12,904	12,904
Deferred income tax assets – net	–	–	–	–	–	–	6,522	6,522
Prepayments – net of current portion	–	–	–	–	–	–	8,247	8,247
Advances and refundable deposits – net of current portion	1,047	–	–	–	–	1,047	234	1,281
Current:								
Cash and cash equivalents	28,878	–	–	–	–	28,878	–	28,878
Short-term investments	178	–	520	–	–	698	–	698
Trade and other receivables – net	15,415	–	–	–	–	15,415	–	15,415
Inventories and supplies	–	–	–	–	–	–	2,561	2,561
Derivative financial assets	–	–	5	–	–	5	–	5
Current portion of prepayments	–	–	–	–	–	–	5,263	5,263
Current portion of advances and refundable deposits	16	–	–	–	–	16	185	201
Total assets	45,534	473	525	130	–	46,662	217,654	264,316

	Loans and receivables	Held-to-maturity investments	Held-for-trading	Available-for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
				(in million pesos)				
Liabilities as at June 30, 2010 (Unaudited)								
Noncurrent:								
Interest-bearing financial liabilities – net of current portion	–	–	–	–	82,225	82,225	–	82,225
Deferred income tax liabilities – net	–	–	–	–	–	–	1,555	1,555
Derivative financial liabilities	–	–	1,361	–	–	1,361	–	1,361
Pension and other employee benefits	–	–	–	–	–	–	1,080	1,080
Customers' deposits	–	–	–	–	2,213	2,213	–	2,213
Deferred credits and other noncurrent liabilities	–	–	–	–	12,183	12,183	1,378	13,561
Current:								
Accounts payable	–	–	–	–	14,995	14,995	1,709	16,704
Accrued expenses and other current liabilities	–	–	–	–	26,923	26,923	6,736	33,659
Provision for assessments	–	–	–	–	–	–	1,555	1,555
Current portion of interest-bearing financial liabilities	–	–	–	–	11,148	11,148	–	11,148
Dividends payable	–	–	–	–	1,852	1,852	–	1,852
Income tax payable	–	–	–	–	–	–	3,002	3,002
Total liabilities	–	–	1,361	–	151,539	152,900	17,015	169,915
Net assets (liabilities)	**45,534**	**473**	**(836)**	**130**	**(151,539)**	**(106,238)**	**200,639**	**94,401**
Assets as at December 31, 2009 (Audited)								
Noncurrent:								
Property, plant and equipment	–	–	–	–	–	–	161,256	161,256
Investments in associates and joint ventures	–	–	–	–	–	–	22,233	22,233
Available-for-sale financial assets	–	–	–	134	–	134	–	134
Investment in debt securities	–	462	–	–	–	462	–	462
Investment properties	–	–	–	–	–	–	1,210	1,210
Goodwill and intangible assets	–	–	–	–	–	–	13,024	13,024
Deferred income tax assets – net	–	–	–	–	–	–	7,721	7,721
Prepayments – net of current portion	–	–	–	–	–	–	8,663	8,663
Advances and refundable deposits – net of current portion	842	–	–	–	–	842	260	1,102
Current:								
Cash and cash equivalents	38,319	–	–	–	–	38,319	–	38,319
Short-term investments	3,338	–	486	–	–	3,824	–	3,824
Trade and other receivables – net	14,729	–	–	–	–	14,729	–	14,729
Inventories and supplies	–	–	–	–	–	–	2,165	2,165
Derivative financial assets	–	–	6	–	–	6	–	6
Current portion of prepayments	–	–	–	–	–	–	5,098	5,098
Current portion of advances and refundable deposits	7	–	–	–	–	7	195	202
Total assets	57,235	462	492	134	–	58,323	221,825	280,148
Liabilities as at December 31, 2009 (Audited)								
Noncurrent:								
Interest-bearing financial liabilities – net of current portion	–	–	–	–	86,079	86,079	–	86,079
Deferred income tax liabilities – net	–	–	–	–	–	–	1,321	1,321
Derivative financial liabilities	–	–	2,751	–	–	2,751	–	2,751
Pension and other employee benefits	–	–	–	–	–	–	374	374
Customers' deposits	–	–	–	–	2,166	2,166	–	2,166
Deferred credits and other noncurrent liabilities	–	–	–	–	13,159	13,159	1,279	14,438
Current:								
Accounts payable	–	–	–	–	17,698	17,698	1,903	19,601
Accrued expenses and other current liabilities	–	–	–	–	28,752	28,752	6,694	35,446
Provision for assessments	–	–	–	–	–	–	1,555	1,555
Current portion of interest-bearing financial liabilities	–	–	–	–	12,714	12,714	–	12,714
Dividends payable	–	–	–	–	1,749	1,749	–	1,749
Income tax payable	–	–	–	–	–	–	2,829	2,829
Total liabilities	–	–	2,751	–	162,317	165,068	15,955	181,023
Net assets (liabilities)	**57,235**	**462**	**(2,259)**	**134**	**(162,317)**	**(106,745)**	**205,870**	**99,125**

The following table sets forth the consolidated carrying values and estimated fair values of our financial assets and liabilities:

	Carrying Value		Fair Value	
	June 30, 2010	December 31, 2009	**June 30, 2010**	December 31, 2009
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
		(in million pesos)		
Noncurrent Financial Assets				
Available-for-sale financial assets:				
Listed equity securities	**67**	68	**67**	68
Unlisted equity securities	**63**	66	**63**	66
Investment in debt securities	**473**	462	**485**	474
Advances and refundable deposits – net of current portion	**1,047**	842	**928**	732
Total noncurrent financial assets	**1,650**	1,438	**1,543**	1,340

	Carrying Value		Fair Value	
	June 30, 2010	December 31, 2009	**June 30, 2010**	December 31, 2009
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	(in million pesos)			
Current Financial Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**3,065**	3,300	**3,065**	3,300
Temporary cash investments	**25,813**	35,019	**25,813**	35,019
Short-term investments	**698**	3,824	**698**	3,824
Trade and other receivables – net:				
Foreign administrations	**4,351**	4,064	**4,351**	4,064
Retail subscribers	**3,438**	3,546	**3,438**	3,546
Corporate subscribers	**2,140**	2,429	**2,140**	2,429
Domestic carriers	**1,882**	1,184	**1,882**	1,184
Dealers, agents and others	**3,604**	3,506	**3,604**	3,506
Derivative financial assets:				
Bifurcated embedded derivatives	**5**	6	**5**	6
Current portion of advances and refundable deposits	**16**	7	**16**	7
Total current financial assets	**45,012**	56,885	**45,012**	56,885
Total Financial Assets	**46,662**	58,323	**46,555**	58,225
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**82,215**	86,066	**86,722**	88,383
Obligations under finance lease	**10**	13	**9**	12
Derivative financial liabilities:				
Long-term currency swap	**1,361**	2,751	**1,361**	2,751
Customers' deposits	**2,213**	2,166	**1,395**	1,375
Deferred credits and other noncurrent liabilities	**12,183**	13,159	**10,753**	11,629
Total noncurrent financial liabilities	**97,982**	104,155	**100,240**	104,150
Current Financial Liabilities				
Accounts payable:				
Suppliers and contractors	**12,746**	14,975	**12,746**	14,975
Carriers	**1,936**	1,937	**1,936**	1,937
Related parties	**109**	233	**109**	233
Others	**204**	553	**204**	553
Accrued expenses and other current liabilities:				
Utilities and related expenses	**18,573**	17,388	**18,573**	17,388
Employee benefits	**3,802**	8,071	**3,802**	8,071
Interests and other related costs	**1,072**	1,167	**1,072**	1,167
Installment payable for purchase of equity investment	**–**	65	**–**	65
Others	**3,476**	2,061	**3,476**	2,061
Interest-bearing financial liabilities:				
Notes payable	**186**	2,279	**186**	2,279
Current portion of long-term debt	**10,955**	10,384	**10,955**	10,384
Obligations under finance lease	**7**	51	**7**	51
Dividends payable	**1,852**	1,749	**1,852**	1,749
Total current financial liabilities	**54,918**	60,913	**54,918**	60,913
Total Financial Liabilities	**152,900**	165,068	**155,158**	165,063

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy:

	June 30, 2010			December 31, 2009		
	(Unaudited)			(Audited)		
	Level 1[(1)]	**Level 2[(2)]**	**Total**	Level 1[(1)]	Level 2[(2)]	Total
			(in million pesos)			
Noncurrent Financial Asset						
Available-for-sale financial assets –						
Listed equity securities	**67**	**–**	**67**	68	–	68
Current Financial Assets						
Short-term investments	**520**	**–**	**520**	486	–	486
Derivative financial assets	–	**5**	**5**	–	6	6
Total	**587**	**5**	**592**	554	6	560
Noncurrent Financial Liability						
Derivative financial liabilities	**–**	**1,361**	**1,361**	–	2,751	2,751
Total	**–**	**1,361**	**1,361**	–	2,751	2,751

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted prices that are either directly or indirectly observable for the assets or liabilities.*

As at June 30, 2010 and December 31, 2009, we do not have financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3).

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities: Fair value is based on the following:

Type	**Fair Value Assumptions**
Noncurrent portion of advances and refundable deposits	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.
Fixed rate loans: U.S. dollar notes Other loans in all other currencies	 Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing rates for similar types of loans.
Variable rate loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.
Customers' deposits and deferred credits and other noncurrent liabilities	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.

Derivative Financial Instruments:

Foreign currency options: The fair values were computed using an option pricing model using market volatility rates of the U.S. dollar and Philippine peso exchange rate as at valuation date.

Forward foreign exchange contracts, bifurcated foreign currency forwards and foreign currency swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

Available-for-sale financial assets: Fair values of available-for-sale financial assets, which consist of proprietary shares, were determined using quoted prices.

Investment in debt securities: Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, current investment in debt securities, trade and other receivables, current portion of advances and refundable deposits, accounts payable, accrued expenses and other current liabilities, current portion of interest-bearing financial liabilities, and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. As at June 30, 2010 and December 31, 2009, we have no outstanding financial instruments designated as hedges.

The table below sets out the information about our derivative financial instruments not designated as hedges.

		June 30, 2010		December 31, 2009	
		(Unaudited)		(Audited)	
	Maturity	**Notional**	**Mark-to-market Gains (Losses)**	Notional	Mark-to-market Gains (Losses)
			(in millions)		
PLDT					
Currency swaps	2017	**US$222**	**(Php708)**	US$245	(Php1,803)
	2012	**141**	**(653)**	146	(948)
		363	**(1,361)**	391	(2,751)
ePLDT					
Bifurcated embedded derivatives	2012	**1**	**5**	1	4
Smart					
Bifurcated embedded derivatives	2010	**–**	**–**	–	2
Net liabilities			**(Php1,356)**		(Php2,745)

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Presented as:		
Current assets	**5**	6
Noncurrent liabilities	**(1,361)**	(2,751)
Net liabilities	**(1,356)**	(2,745)

Analysis of gains (losses) on derivative financial instruments are as follows:

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(in million pesos)	
Net mark-to-market losses at end of period	**(1,356)**	(2,760)
Net mark-to-market losses at beginning of period	**(2,745)**	(1,792)
Net change	**1,389**	(968)
Settlements, accretion and conversion	**(201)**	(338)
Hedge cost	**(254)**	(325)
Net gains (losses) on derivative financial instruments (Note 4)	**934**	(1,631)

PLDT

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

Currency Swaps

PLDT entered into long-term principal only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. As at June 30, 2010 and December 31, 2009, these long-term currency swaps have an aggregate notional amount of US$363 million and US$391 million, respectively, with total mark-to-market losses of Php1,361 million and Php2,751 million, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. In March and April 2004, PLDT entered into amendments to keep the lowest reset exchange rate and unwind the downward resettable feature of US$550 million of its long-term principal only currency swap agreements in order to lower the running hedging cost of the swaps. As at June 30, 2010 and December 31, 2009, the outstanding swap contracts have an agreed average swap exchange rates of Php50.61 and Php50.60, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 2.93% and 2.83% per annum as at June 30, 2010 and December 31, 2009, respectively.

On various dates in 2009, the long-term principal only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php112 million and Php485 million, respectively. As a result of these unwinding transactions, the outstanding notional amount as at December 31, 2009 was reduced to US$146 million and US$245 million for the swaps maturing in 2012 and 2017, respectively.

On various dates from January to June 2010, the long-term principal only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php32 million and Php168 million, respectively. As a result of these unwinding transactions, the outstanding notional amount as at June 30, 2010 was reduced to US$141 million and US$222 million for the swaps maturing in 2012 and 2017, respectively.

ePLDT

Level Up! embedded derivatives were bifurcated from various license contracts and other service agreements denominated in U.S. dollar. The aggregate notional amount of these bifurcated embedded currency forwards amounted to US$1 million each as at June 30, 2010 and December 31, 2009. The total mark-to-market gains of these bifurcated embedded currency forwards as at June 30, 2010 and December 31, 2009 amounted to Php5 million and Php4 million, respectively.

Smart

Smart's embedded derivatives were bifurcated from service and purchase contracts. As at June 30, 2010 and December 31, 2009, outstanding contracts amounted to US$140 thousand and US$209 thousand, respectively, including service contracts denominated in U.S. dollars, which is not the functional currency of a substantial party to the contract or the routine currency of the transaction. The total mark-to-market value of these bifurcated embedded currency forwards as at June 30, 2010 and December 31, 2009 amounted to Php165 thousand and Php2 million, respectively.

Financial Risk Management Objectives and Policies

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

Liquidity Risk

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 Php685 million as at June 30, 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 Php28,878 million and Php698 million, respectively, as at June 30, 2010. Details on our letters of credit and summary of the maturity profile of our financial liabilities as at June 30, 2010 and December 31, 2009 based on contractual undiscounted payments is set out in *Note 26 – Contractual Obligations and Commercial Commitments.*

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 period.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents.

	June 30, 2010 (Unaudited)		December 31, 2009 (Audited)	
	U.S. Dollar	**Php[(1)]**	U.S. Dollar	Php[(2)]
	(in millions)			
Noncurrent Financial Assets				
Note receivable	**2**	**85**	2	81
Advances and refundable deposits	–	**5**	–	7
Total noncurrent financial assets	**2**	**90**	2	88
Current Financial Assets				
Cash and cash equivalents	**161**	**7,457**	140	6,496
Short-term investments	**15**	**681**	47	2,164
Trade and other receivables – net	**217**	**10,071**	206	9,573
Derivative financial assets	–	**5**	–	6
Total current financial assets	**393**	**18,214**	393	18,239
Total Financial Assets	**395**	**18,304**	395	18,327
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**827**	**38,362**	837	38,871
Derivative financial liabilities	**29**	**1,361**	59	2,751
Total noncurrent financial liabilities	**856**	**39,723**	896	41,622
Current Financial Liabilities				
Accounts payable	**131**	**6,073**	155	7,180
Accrued expenses and other current liabilities	**126**	**5,843**	95	4,409
Current portion of interest-bearing financial liabilities	**125**	**5,819**	155	7,220
Total current financial liabilities	**382**	**17,735**	405	18,809
Total Financial Liabilities	**1,238**	**57,458**	1,301	60,431

(1) *The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php46.42 to US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at June 30, 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 September 13, 2010, the peso-dollar exchange rate was Php43.96 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities as at June 30, 2010 would have decreased in peso terms by Php2,074 million.

As at June 30, 2010 and December 31, 2009, approximately 47% and 46%, respectively, of our total consolidated debts (net of consolidated debt discount) was denominated in U.S. dollars. Consolidated foreign currency-denominated debt decreased to Php43,704 million as at June 30, 2010 from Php45,633 million as at December 31, 2009. PLDT's outstanding long-term principal only currency swap contracts amounted to US$363 million and US$391 million as at June 30, 2010 and December 31, 2009, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 29% (or 20%, net of our consolidated U.S. dollar cash balances) and 28% (or 19%, net of our consolidated U.S. dollar cash balances) as at June 30, 2010 and December 31, 2009, respectively.

For the six months ended June 30, 2010 and 2009, approximately 32% and 34%, respectively, of our consolidated service revenues were denominated in U.S. dollars and/or were linked to U.S. dollars. 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 0.002% against the U.S. dollar to Php46.42 to US$1.00 as at June 30, 2010 from Php46.43 to US$1.00 as at December 31, 2009. As at June 30, 2009, the Philippine peso had depreciated by 1.07% to Php48.16 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 losses of Php59 million and Php292 million for the six months ended June 30, 2010 and 2009, respectively. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the peso-dollar exchange rate until our next reporting date of September 30, 2010. Our outlook is that the peso-dollar exchange rate may weaken/strengthen by 1.77% as compared to the exchange rate of Php46.42 to US$1.00 as at June 30, 2010. If the peso-dollar exchange rate had weakened/strengthened by 1.77% as at June 30, 2010, with all other variables held constant, profit after tax for the six months ended June 30, 2010 would have been approximately Php323 million higher/lower and our consolidated stockholders' equity as at June 30, 2010 would have been approximately Php317 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. Financial instruments that are not subject to interest rate risk were not included in the table.

As at June 30, 2010 (Unaudited)

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	**1-2 years**	**2-3 years**	**3-5 years**	**Over 5 years**	**Total**	**In Php**	**In Php**	**In Php**	**In U.S. Dollar**	**In Php**
									(in millions)		
Assets:											
Cash in Bank											
U.S. Dollar	8	–	–	–	–	8	385	–	385	8	385
Interest rate	0.0025% to 0.784%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	34	–	–	–	–	34	1,586	–	1,586	34	1,586
Interest rate	0.0625% to 3%	–	–	–	–	–	–	–	–	–	–
Other Currencies	4	–	–	–	–	4	157	–	157	4	157
Interest rate	0.01 to 2.4%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
U.S. Dollar	133	–	–	–	–	133	6,170	–	6,170	133	6,170
Interest rate	0.12% to 1.7243%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	423	–	–	–	–	423	19,643	–	19,643	423	19,643
Interest rate	1.25% to 4.81%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
U.S. Dollar	15	–	–	–	–	15	681	–	681	15	681
Interest rate	4.25% to 7.006%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	–	–	–	–	–	–	17	–	17	–	17
Interest rate	4.01%	–	–	–	–	–	–	–	–	–	–
Investment in Debt Securities											
Philippine Peso	–	–	–	10	–	10	473	–	473	10	485
Interest rate	–	–	–	6.9203%	–	–	–	–	–	–	–
	617	**–**	**–**	**10**	**–**	**627**	**29,112**	**–**	**29,112**	**627**	**29,124**

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	–	146	–	–	234	380	17,644	250	17,394	445	20,633
Interest rate	–	11.375%	–	–	8.35%	–	–	–	–	–	–
U.S. Dollar Fixed Loans	7	43	15	303	–	368	17,062	3,094	13,968	285	13,219
Interest rate	4.515%	2.99% to 4.7%	2.99% to 3.79%	2.25% to 3.79%	–	–	–	–	–	–	–
Philippine Peso	21	159	12	330	206	728	33,822	71	33,751	770	35,768
Interest rate	6.0323%	5.625% to 8.4346%	6.5% to 8.4346%	6.125% to 9.1038%	6.5% to 9.1038%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	11	157	68	28	–	264	12,254	98	12,156	262	12,156
Interest rate	US$ LIBOR + 0.65% to 2.5%	Swap rate + 2.79% US$ LIBOR + 0.42% to 1.85%	Swap rate + 2.79% US$ LIBOR + 0.42% to 1.85%	Swap rate + 2.79% US$ LIBOR + 0.5% to 1.85%	–	–	–	–	–	–	–
Philippine Peso	–	195	80	68	–	343	15,922	21	15,901	342	15,901
Interest rate	–	PDST-F + 0.75% to 1.5%; AUB's prime rate	PDST-F + 1% to 1.5%	PDST-F + 1% to 1.5%	–	–	–	–	–	–	–
Short-term Debt											
Notes Payable											
U.S. Dollar	4	–	–	–	–	4	186	–	186	4	186
Interest rate	2.5%	–	–	–	–	–	–	–	–	–	–
	43	**700**	**175**	**729**	**440**	**2,087**	**96,890**	**3,534**	**93,356**	**2,108**	**97,863**

As at December 31, 2009 (Audited)

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
Assets:											
Cash in Bank											
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%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
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%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
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**

	In U.S. Dollar							Discount/ Debt Issuance Cost	Carrying Value	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php	In Php	In Php	In U.S. Dollar	In Php
									(in millions)		
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% to 4.70%	3.79%	2.25% to 3.79%	–	–	–	–	–	–	–
Philippine Peso	–	63	126	236	305	730	33,858	84	33,774	744	34,535
Interest rate	–	6.0323% to 8.4346%	5.625% to 8.4346%	6.125% to 9.1038%	6.50% to 9.1038%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	41	160	74	60	–	335	15,543	124	15,419	332	15,419
Interest rate	US$ LIBOR + 0.05% to 2.5%	US$ LIBOR + 0.42% to 1.85%; swap rate + 2.79%	US$ LIBOR + 0.42% to 1.85%; swap rate + 2.79%	US$ LIBOR + 0.42% to 1.85%; swap rate + 2.79%	–	–	–	–	–	–	–
Philippine Peso	–	185	81	107	–	373	17,349	27	17,322	373	17,322
Interest rate	–	PDST-F + 0.75% to 1.5%; AUB's prime rate	PDST-F + 1.0% to 1.50%; AUB's prime rate	PDST-F + 1.0% to 1.50%	–	–	–	–	–	–	–
Short-term Debt											
Notes Payable											
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 September 30, 2010. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 10 basis points and 15 basis points higher/lower, respectively, as compared to levels as at June 30, 2010. If U.S. dollar interest rates had been 10 basis points higher/lower as compared to market levels as at June 30, 2010, with all other variables held constant, profit after tax for the six months ended June 30, 2010 and our consolidated stockholders' equity as at June 30, 2010 would have been approximately Php50 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 15 basis points higher/lower as compared to market levels as at June 30, 2010, with all other variables held constant, profit after tax for the six months ended June 30, 2010 and our consolidated stockholders' equity as at June 30, 2010 would have been approximately Php62 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

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

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

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

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments.

	Gross Maximum Exposure[1]		Net Maximum Exposure[2]	
	June 30, 2010	December 31, 2009	**June 30, 2010**	December 31, 2009
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	(in million pesos)			
Loans and receivables:				
Advances and refundable deposits	**1,063**	849	**1,063**	848
Cash and cash equivalents	**28,878**	38,319	**28,712**	38,101
Short-term investments	**178**	3,338	**178**	3,338
Foreign administrations	**4,351**	4,064	**4,313**	4,011
Retail subscribers	**3,438**	3,546	**3,365**	3,505
Corporate subscribers	**2,140**	2,429	**2,069**	2,328
Domestic carriers	**1,882**	1,184	**1,882**	1,184
Dealers, agents and others	**3,604**	3,506	**3,572**	3,506
Held-to-maturity investments:				
Investment in debt securities	**473**	462	**473**	462
Available-for-sale financial assets	**130**	134	**130**	134
Held-for-trading:				
Short-term investments	**520**	486	**520**	486
Bifurcated embedded derivatives	**5**	6	**5**	6
Total	**46,662**	58,323	**46,282**	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 or other credit enhancements or offsetting arrangements or deposit insurance.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties.

		Neither past due nor impaired			
	Total	**Class A[1]**	**Class B[2]**	**Past due but not impaired**	**Impaired**
	(in million pesos)				
June 30, 2010 (Unaudited)					
Loans and receivables:					
Advances and refundable deposits	1,063	1,014	49	–	–
Cash and cash equivalents	28,878	27,615	1,263	–	–
Short-term investments	178	178	–	–	–
Corporate subscribers	9,192	550	544	1,046	7,052
Retail subscribers	8,320	571	955	1,912	4,882
Foreign administrations	4,758	1,258	1,309	1,784	407
Domestic carriers	1,961	87	24	1,771	79
Dealers, agents and others	4,190	1,765	1,644	195	586
Held-to-maturity investments:					
Investment in debt securities	473	473	–	–	–
Available-for-sale financial assets	130	96	34	–	–
Held-for-trading[3]:					
Short-term investments	520	520	–	–	–
Bifurcated embedded derivatives	5	5	–	–	–
Total	**59,668**	**34,132**	**5,822**	**6,708**	**13,006**

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A[(1)]	Class B[(2)]		
		(in million pesos)			
December 31, 2009 (Audited)					
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	–	–
Held-for-trading[(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.*

The aging analysis of past due but not impaired class of financial assets is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
June 30, 2010 (Unaudited)						
Loans and receivables:						
Advances and refundable deposits	1,063	1,063	–	–	–	–
Cash and cash equivalents	28,878	28,878	–	–	–	–
Short-term investments	178	178	–	–	–	–
Corporate subscribers	9,192	1,094	639	160	247	7,052
Retail subscribers	8,320	1,526	1,295	239	378	4,882
Foreign administrations	4,758	2,567	1,150	267	367	407
Domestic carriers	1,961	111	173	148	1,450	79
Dealers, agents and others	4,190	3,409	34	21	140	586
Held-to-maturity investments:						
Investment in debt securities	473	473	–	–	–	–
Available-for-sale financial assets	130	130	–	–	–	–
Held-for-trading:						
Short-term investments	520	520	–	–	–	–
Bifurcated embedded derivatives	5	5	–	–	–	–
Total	**59,668**	**39,954**	**3,291**	**835**	**2,582**	**13,006**
December 31, 2009 (Audited)						
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	–	–	–	–
Held-for-trading:						
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.

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

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 then, our strong cash flows have 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 earnings 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. As at June 30, 2010 and December 31, 2009, we had acquired a total of approximately 2.7 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. See *Note 8 – Earnings Per Common Share* and *Note 19 – Equity*.

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 (notes payable and long-term debt). 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:

	June 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
	(in million pesos)	
Long-term debt, including current portion (Note 20)	**93,170**	96,450
Notes payable (Note 20)	**186**	2,279
Total consolidated debt	**93,356**	98,729
Cash and cash equivalents (Note 15)	**(28,878)**	(38,319)
Short-term investments	**(698)**	(3,824)
Net consolidated debt	**63,780**	56,586
Equity attributable to equity holders of PLDT	**93,958**	98,575
Net consolidated debt to equity ratio	**68%**	57%

29. Cash Flow Information

	June 30, 2010
	(Unaudited)
	(in million pesos)
Non-cash investing activities:	
Transfer of Meralco shares to Beacon (Note 10)	15,084

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BOA/PRC Reg. No. 0001
SEC Accreditation No 0012-FR-2

Independent Auditors' Report

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company
Ramon Cojuangco Building
Makati Avenue, Makati City, Philippines

We have audited the accompanying financial statements of Philippine Long Distance Telephone Company and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-2
Tax Identification No. 102-092-270
PTR No. 2087551, January 4, 2010, Makati City

March 4, 2010

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008
(in million pesos, except par value and number of shares)

	2009	2008
ASSETS		
Noncurrent Assets		
Property, plant and equipment (Notes 3, 9, 20 and 28)	**161,256**	160,326
Investments in associates and joint ventures (Notes 3, 4, 5, 10, 28 and 30)	**22,233**	1,174
Available-for-sale financial assets (Notes 6 and 28)	**134**	131
Investment in debt securities – net of current portion (Notes 11 and 28)	**462**	635
Investment properties (Notes 3, 9, 12 and 28)	**1,210**	617
Goodwill and intangible assets (Notes 3, 13, 14, 21 and 28)	**13,024**	10,450
Deferred income tax assets – net (Notes 3, 4, 7 and 28)	**7,721**	9,605
Prepayments – net of current portion (Notes 3, 5, 18, 26 and 28)	**8,663**	2,501
Advances and refundable deposits – net of current portion (Note 28)	**1,102**	1,086
Total Noncurrent Assets	**215,805**	186,525
Current Assets		
Cash and cash equivalents (Notes 15 and 28)	**38,319**	33,684
Short-term investments (Note 28)	**3,824**	6,670
Current portion of investment in debt securities (Notes 11 and 28)	**–**	1,656
Trade and other receivables – net (Notes 3, 16, 24 and 28)	**14,729**	15,909
Inventories and supplies (Notes 3, 4, 5, 17 and 28)	**2,165**	2,069
Derivative financial assets (Note 28)	**6**	56
Current portion of prepayments (Notes 18 and 28)	**5,098**	4,164
Current portion of advances and refundable deposits (Note 28)	**202**	1,825
Total Current Assets	**64,343**	66,033
TOTAL ASSETS	**280,148**	252,558
EQUITY AND LIABILITIES		
Equity		
Preferred stock, Php10 par value per share, authorized - 822,500,000 shares; issued and outstanding - 441,631,062 shares as at December 31, 2009 and 441,480,512 shares as at December 31, 2008 (Notes 8 and 19)	**4,416**	4,415
Common stock, Php5 par value per share, authorized - 234,000,000 shares; issued - 189,480,260 shares and outstanding - 186,797,304 shares as at December 31, 2009; and issued - 189,456,127 shares and outstanding 187,483,837 shares as at December 31, 2008 (Notes 8 and 19)	**947**	947
Treasury stock - 2,682,956 shares as at December 31, 2009 and 1,972,290 shares as at December 31, 2008 (Notes 8, 19 and 28)	**(6,405)**	(4,973)
Stock options issued (Note 25)	**–**	6
Capital in excess of par value	**62,890**	68,337
Retained earnings (Notes 8 and 19)	**37,744**	37,177
Other comprehensive income (Note 6)	**(1,017)**	(378)
Total Equity Attributable to Equity Holders of PLDT	**98,575**	105,531
Non-controlling Interests	**550**	1,438
TOTAL EQUITY	**99,125**	106,969

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*
December 31, 2009 and 2008
(in million pesos, except par value and number of shares)

	2009	2008
Noncurrent Liabilities		
Interest-bearing financial liabilities – net of current portion (Notes 4, 5, 9, 20, 23, 26 and 28)	**86,079**	58,910
Deferred income tax liabilities – net (Notes 3, 4, 7 and 28)	**1,321**	1,288
Derivative financial liabilities (Notes 26 and 28)	**2,751**	1,761
Pension and other employee benefits (Notes 3, 5, 23, 25, 26 and 28)	**374**	5,467
Customers' deposits (Notes 26 and 28)	**2,166**	2,251
Deferred credits and other noncurrent liabilities (Notes 3, 9, 13, 14, 21, 23 and 28)	**14,438**	10,582
Total Noncurrent Liabilities	**107,129**	80,259
Current Liabilities		
Accounts payable (Notes 22, 24, 26 and 28)	**19,601**	18,268
Accrued expenses and other current liabilities (Notes 3, 10, 13, 20, 21, 23, 24, 25, 26, 27 and 28)	**35,446**	24,381
Derivative financial liabilities (Notes 26 and 28)	**–**	87
Provision for assessments (Notes 3, 26, 27 and 28)	**1,555**	1,555
Current portion of interest-bearing financial liabilities (Notes 4, 5, 9, 20, 23, 26 and 28)	**12,714**	15,080
Dividends payable (Notes 19, 26 and 28)	**1,749**	1,379
Income tax payable (Notes 7 and 28)	**2,829**	4,580
Total Current Liabilities	**73,894**	65,330
TOTAL LIABILITIES	**181,023**	145,589
TOTAL EQUITY AND LIABILITIES	**280,148**	252,558

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
For the Years Ended December 31, 2009, 2008 and 2007
(in million pesos, except earnings per common share amounts)

	2009	2008	2007
REVENUES			
Service revenues (Notes 3 and 4)	**145,647**	142,873	135,478
Non-service revenues (Notes 3, 4 and 5)	**2,346**	2,709	2,480
	147,993	145,582	137,958
EXPENSES			
Depreciation and amortization (Notes 3, 4 and 9)	**25,607**	24,709	28,613
Compensation and employee benefits (Notes 3, 5 and 25)	**23,100**	20,709	20,470
Repairs and maintenance (Notes 12, 17 and 24)	**8,631**	8,569	7,310
Selling and promotions	**5,749**	5,695	5,541
Cost of sales (Notes 5, 17, 24 and 26)	**5,432**	5,252	5,127
Asset impairment (Notes 3, 4, 5, 9, 10, 14, 16, 17, 18, 26 and 28)	**5,061**	4,180	1,317
Professional and other contracted services (Note 24)	**4,361**	4,591	5,588
Rent (Notes 3 and 26)	**4,055**	3,656	2,762
Taxes and licenses (Note 27)	**2,881**	2,736	2,319
Communication, training and travel	**1,902**	1,993	1,850
Insurance and security services (Note 24)	**1,264**	1,196	1,197
Amortization of intangible assets (Notes 3 and 14)	**368**	377	390
Provisions (Notes 3, 4, 26 and 27)	**–**	8 98	666
Other expenses (Note 24)	**1,700**	1,225	1,306
	90,111	85,786	84,456
	57,882	59,796	53,502
OTHER INCOME (EXPENSES)			
Interest income (Notes 4 and 5)	**1,539**	1,668	1,503
Foreign exchange gains (losses) – net (Notes 4, 9 and 28)	**909**	(6,170)	2,976
Equity share in net earnings (losses) of associates and joint ventures (Notes 4 and 10)	**2**	(176)	(11)
Gains (losses) on derivative financial instruments – net (Notes 4 and 28)	**(1,006)**	3,812	(1,044)
Financing costs – net (Notes 4, 5, 9, 20 and 28)	**(6,556)**	(6,104)	(7,088)
Other income	**2,069**	1,665	3,419
	(3,043)	(5,305)	(245)
INCOME BEFORE INCOME TAX (Note 4)	**54,839**	54,491	53,257
PROVISION FOR INCOME TAX (Notes 3, 4 and 7)	**14,744**	19,193	17,279
NET INCOME FOR THE YEAR (Note 4)	**40,095**	35,298	35,978
ATTRIBUTABLE TO:			
Equity holders of PLDT (Notes 4, 6 and 8)	**39,781**	34,635	36,004
Non-controlling interests (Note 4)	**314**	663	(26)
	40,095	35,298	35,978
Earnings Per Share For The Year Attributable to Common Equity Holders of PLDT (Note 8)			
Basic	**210.38**	181.65	188.42
Diluted	**210.36**	181.64	187.53

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2009, 2008 and 2007
(in million pesos)

	2009	2008	2007
NET INCOME FOR THE YEAR (Note 4)	**40,095**	35,298	35,978
OTHER COMPREHENSIVE INCOME (Note 6)			
Net gains (losses) on available-for-sale financial assets:	**3**	(9)	30
Gains (losses) recognized during the year	**3**	(9)	32
Gains removed from other comprehensive income taken to income	**–**	–	(2)
Foreign currency translation differences of subsidiaries	**(657)**	1,490	(1,849)
Net transactions on cash flow hedges – net of tax:	**–**	(899)	2,653
Net (gains) losses on cash flow hedges removed from other comprehensive income taken to income	**–**	(697)	5,014
Net losses on cash flow hedges	**–**	(662)	(1,142)
Income tax related to cash flow hedges:	**–**	460	(1,219)
Removed from other comprehensive income taken to income	**–**	209	(1,504)
Charged directly to equity	**–**	251	285
Total Other Comprehensive Income – Net of Tax	**(654)**	582	834
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**39,441**	35,880	36,812
ATTRIBUTABLE TO:			
Equity holders of PLDT	**39,142**	35,152	36,905
Non-controlling interests	**299**	728	(93)
	39,441	35,880	36,812

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2009, 2008 and 2007
(in million pesos)

	Preferred Stock	Common Stock	Treasury Stock	Stock Options Issued	Equity Portion of Convertible Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Other Comprehensive Income	Total Equity Attributable to Equity Holders of PLDT	Non-controlling Interests	Total
Balances as at January 1, 2007	**4,424**	**942**	**–**	**40**	**9**	**66,574**	**32,328**	**(1,796)**	**102,521**	**1,546**	**104,067**
Total comprehensive income for the year (Notes 4, 6 and 8):	–	–	–	–	–	–	36,004	901	36,905	(93)	36,812
Net income for the year (Notes 4 and 8)	–	–	–	–	–	–	36,004	–	36,004	(26)	35,978
Foreign currency translation differences of subsidiaries	–	–	–	–	–	–	–	(1,782)	(1,782)	(67)	(1,849)
Net gains on available-for-sale financial assets	–	–	–	–	–	–	–	30	30	–	30
Net transactions on cash flow hedges – net of tax	–	–	–	–	–	–	–	2,653	2,653	–	2,653
Cash dividends (Note 19)	–	–	–	–	–	–	(28,756)	–	(28,756)	(12)	(28,768)
Issuance of capital stock – net of conversion (Note 19)	(7)	1	–	–	(3)	379	–	–	370	–	370
Exercised option shares (Note 25)	–	–	–	(31)	–	104	–	–	73	–	73
Business combinations and others (Note 13)	–	–	–	–	–	–	–	–	–	(43)	(43)
Balances as at December 31, 2007	**4,417**	**943**	–	**9**	**6**	**67,057**	**39,576**	**(895)**	**111,113**	**1,398**	**112,511**
Balances as at January 1, 2008	**4,417**	**943**	**–**	**9**	**6**	**67,057**	**39,576**	**(895)**	**111,113**	**1,398**	**112,511**
Total comprehensive income for the year (Notes 4, 6 and 8):	–	–	–	–	–	–	34,635	517	35,152	728	35,880
Net income for the year (Notes 4 and 8)	–	–	–	–	–	–	34,635	–	34,635	663	35,298
Foreign currency translation differences of subsidiaries	–	–	–	–	–	–	–	1,425	1,425	65	1,490
Net losses on available-for-sale financial assets	–	–	–	–	–	–	–	(9)	(9)	–	(9)
Net transactions on cash flow hedges – net of tax	–	–	–	–	–	–	–	(899)	(899)	–	(899)
Cash dividends (Note 19)	–	–	–	–	–	–	(37,034)	–	(37,034)	(398)	(37,432)
Issuance of capital stock – net of conversion (Note 19)	(2)	4	–	–	(6)	1,270	–	–	1,266	–	1,266
Exercised option shares (Note 25)	–	–	–	(3)	–	10	–	–	7	–	7
Redemption of shares (Notes 8, 19 and 25)	–	–	(4,973)	–	–	–	–	–	(4,973)	(308)	(5,281)
Business combinations and others (Note 13)	–	–	–	–	–	–	–	–	–	18	18
Balances as at December 31, 2008	**4,415**	**947**	**(4,973)**	**6**	**–**	**68,337**	**37,177**	**(378)**	**105,531**	**1,438**	**106,969**
Balances as at January 1, 2009	**4,415**	**947**	**(4,973)**	**6**	**–**	**68,337**	**37,177**	**(378)**	**105,531**	**1,438**	**106,969**
Total comprehensive income for the year (Notes 4, 6 and 8):	–	–	–	–	–	–	39,781	(639)	39,142	299	39,441
Net income for the year (Notes 4 and 8)	–	–	–	–	–	–	39,781	–	39,781	314	40,095
Foreign currency translation differences on subsidiaries	–	–	–	–	–	–	–	(642)	(642)	(15)	(657)
Net gains on available-for-sale financial assets	–	–	–	–	–	–	–	3	3	–	3
Cash dividends (Note 19)	–	–	–	–	–	–	(39,214)	–	(39,214)	(436)	(39,650)
Issuance of capital stock – net of conversion (Note 19)	1	–	–	–	–	11	–	–	12	–	12
Exercised option shares (Note 25)	–	–	–	(6)	–	21	–	–	15	–	15
Redemption of shares (Notes 8, 19 and 25)	–	–	(1,432)	–	–	–	–	–	(1,432)	(320)	(1,752)
Acquisition of non-controlling interests (Notes 2 and 13)	–	–	–	–	–	(5,479)	–	–	(5,479)	(1,139)	(6,618)
Business combinations and others (Note 13)	–	–	–	–	–	–	–	–	–	708	708
Balances as at December 31, 2009	**4,416**	**947**	**(6,405)**	**–**	**–**	**62,890**	**37,744**	**(1,017)**	**98,575**	**550**	**99,125**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009, 2008 and 2007
(in million pesos)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax (Note 4)	**54,839**	54,491	53,257
Adjustments for:			
Depreciation and amortization (Notes 3, 4 and 9)	**25,607**	24,709	28,613
Interest on loans and other related items – net (Notes 4, 5, 9, 20 and 28)	**5,317**	5,083	5,714
Asset impairment (Notes 3, 4, 5, 9, 10, 14, 16, 17 and 28)	**5,061**	4,180	1,317
Incentive plans (Notes 3, 5 and 25)	**1,833**	1,281	1,448
Pension benefit costs (Notes 3, 5 and 25)	**1,306**	725	1,773
Accretion on financial liabilities – net (Notes 5, 20 and 28)	**1,062**	956	1,161
Losses (gains) on derivative financial instruments – net (Notes 4 and 28)	**1,006**	(3,812)	1,044
Amortization of intangible assets (Notes 3 and 14)	**368**	377	390
Equity share in net losses (earnings) of associates and joint ventures (Notes 4 and 10)	**(2)**	176	11
Gains on disposal of property, plant and equipment (Note 9)	**(127)**	(534)	(527)
Foreign exchange losses (gains) – net (Notes 4, 9 and 28)	**(909)**	6,170	(2,976)
Interest income (Notes 4 and 5)	**(1,539)**	(1,668)	(1,503)
Dividends on preferred stock subject to mandatory redemption (Notes 5, 8 and 20)	**–**	4	17
Others	**(802)**	830	(374)
Operating income before changes in assets and liabilities	**93,020**	92,968	89,365
Decrease (increase) in:			
Trade and other receivables	**(1,324)**	(3,003)	(3,266)
Inventories and supplies	**(305)**	(913)	(76)
Prepayments	**(1,333)**	(877)	1,862
Advances and refundable deposits	**271**	(1,338)	(307)
Increase (decrease) in:			
Accounts payable	**130**	5,244	4,763
Accrued expenses and other current liabilities	**8,227**	2,339	4,305
Pension and other employee benefits	**(9,071)**	(1,125)	(6,649)
Customers' deposits	**32**	27	12
Other noncurrent liabilities	**(46)**	1	(1,167)
Net cash generated from operations	**89,601**	93,323	88,842
Income taxes paid	**(15,215)**	(15,021)	(11,424)
Net cash provided by operating activities	**74,386**	78,302	77,418
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Maturity of short-term investments	**9,728**	28,476	15,935
Redemption of investment in debt securities	**4,005**	2,676	–
Disposal of property, plant and equipment (Note 9)	**932**	1,015	953
Disposal of investment properties	**18**	9	10
Disposal of available-for-sale financial assets	**–**	174	7
Disposal of investments in associates	**–**	3	–
Payments for:			
Acquisition of intangibles (Notes 13 and 14)	**(21)**	(69)	(213)
Notes receivable	**(80)**	–	–
Purchase of investment in debt securities (Note 10)	**(3,572)**	(3,457)	(264)
Short-term investments	**(6,838)**	(21,072)	(21,429)
Purchase of subsidiaries and non-controlling interests – net of cash acquired (Note 13)	**(8,989)**	(743)	(1,687)
Purchase of investments in associates (Note 10)	**(18,070)**	–	(601)
Available-for-sale financial assets	**–**	(206)	–
Interest received	**1,352**	1,461	1,218
Decrease (increase) in advances and refundable deposits	**472**	(78)	(424)
Interest paid – capitalized to property, plant and equipment (Notes 4, 5, 9, 20 and 28)	**(691)**	(778)	(542)
Additions to property, plant and equipment (Notes 4 and 9)	**(27,378)**	(24,425)	(24,282)
Net cash used in investing activities	**(49,132)**	(17,014)	(31,319)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued)*
For the Years Ended December 31, 2009, 2008 and 2007
(in million pesos)

	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt (Note 20)	**41,989**	17,912	7,647
Availment of long-term financing for capital expenditures	**7,993**	6,614	8,746
Proceeds from notes payable (Note 20)	**2,000**	660	502
Proceeds from issuance of capital stock	**18**	8	76
Payments of obligations under finance lease	**(24)**	(474)	(199)
Payments of debt issuance costs (Note 20)	**(173)**	(149)	(54)
Payments of notes payable (Note 20)	**(270)**	(678)	(193)
Payments for redemption of shares (Notes 8, 19 and 28)	**(1,752)**	(5,281)	(15)
Settlements of derivative financial instruments (Note 28)	**(1,913)**	(2,891)	(2,066)
Interest paid – net of capitalized portion (Notes 5, 20 and 28)	**(5,239)**	(5,167)	(5,891)
Settlement of long-term financing for capital expenditures	**(4,678)**	(5,519)	(6,837)
Payments of long-term debt (Note 20)	**(18,958)**	(13,375)	(18,065)
Cash dividends paid (Note 19)	**(39,286)**	(37,124)	(28,470)
Net cash used in financing activities	**(20,293)**	(45,464)	(44,819)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(326)**	413	(703)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,635**	16,237	577
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**33,684**	17,447	16,870
CASH AND CASH EQUIVALENTS AT END OF YEAR	**38,319**	33,684	17,447

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT's corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then a major shareholder since PLDT's incorporation, to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, the First Pacific Company Limited, or First Pacific, through its Philippine and other affiliates, collectively the First Pacific Group, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT at that time. Simultaneous with NTT Communications' investment in PLDT, the latter acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or NTT DoCoMo, acquired from NTT Communications approximately 7% of PLDT's then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT's common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT and together with NTT Communications beneficially owned approximately 21% of PLDT's outstanding common stock as at December 31, 2009. NTT Communications and NTT DoCoMo are subsidiaries of NTT Holding Company. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific, completed the acquisition of an approximately 46% interest in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This investment in PTIC represents an attributable interest of approximately 6% of the then outstanding common shares of PLDT and thereby raised First Pacific Group's beneficial ownership to approximately 28% of PLDT's outstanding common stock as at that date. First Pacific Group had beneficial ownership of approximately 26% in PLDT's outstanding common stock as at December 31, 2009.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT's ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol "PHI". As at December 31, 2009, there were approximately 49 million ADSs outstanding.

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

We are the leading telecommunications service provider in the Philippines. Through our 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.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

Our consolidated financial statements as at December 31, 2009 and 2008 and for the three years ended December 31, 2009 were approved and authorized for issuance by the Board of Directors on March 2, 2010, as reviewed and recommended for approval by the Audit Committee.

2. Summary of Significant Accounting Policies

Basis of Preparation

Our consolidated financial statements have been prepared under the historical cost basis except for derivative financial instruments, available-for-sale financial assets and investment properties that have been measured at fair value.

Our consolidated financial statements are presented in Philippine peso, PLDT's functional and presentation currency, and all values are rounded to the nearest million except when otherwise indicated.

Basis of Consolidation

Our consolidated financial statements include the financial statements of PLDT and the following subsidiaries (collectively, the "PLDT Group").

			2009		2008	
			Percentage of Ownership			
Name of Subsidiary	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Wireless						
Smart:	Philippines	Cellular mobile services	**100.0**	**–**	100.0	–
Smart Broadband, Inc., or SBI, and Subsidiaries, or SBI Group	Philippines	Internet broadband distribution	**–**	**100.0**	–	100.0
Primeworld Digital System, Inc., or PDSI	Philippines	Cellular and internet broadband distribution services	**–**	**100.0**	–	–
I-Contacts Corporation, or I-Contacts	Philippines	Customer interaction solutions	**–**	**100.0**	–	100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services	**–**	**100.0**	–	100.0
Wireless Card, Inc., or WCI	Philippines	Promotion of the sale and/or patronage of debit and/or charge cards	**–**	**100.0**	–	100.0
Smarthub, Inc., or SHI	Philippines	Development and sale of software, maintenance and support services	**–**	**100.0**	–	100.0
Smart Money Holdings Corporation, or SMHC:	Cayman Islands	Investment company	**–**	**100.0**	–	100.0
Smart Money, Inc., or SMI	Cayman Islands	Mobile commerce solutions marketing	**–**	**100.0**	–	100.0
Telecoms Solutions, Inc., or TSI	Mauritius	Mobile commerce platforms	**–**	**100.0**	–	100.0
Far East Capital Limited and Subsidiary	Cayman Islands	Cost effective offshore financing and risk management activities for Smart	**–**	**100.0**	–	100.0
PH Communications Holdings Corporation, or PHC	Philippines	Investment company	**–**	**100.0**	–	100.0
Francom Holdings, Inc., or FHI:	Philippines	Investment company	**–**	**100.0**	–	100.0
Connectivity Unlimited Resource Enterprise, Inc., or CURE	Philippines	Cellular mobile services	**–**	**100.0**	–	100.0
Chikka Holdings Limited, or Chikka, and Subsidiaries, or Chikka Group	British Virgin Islands	Mobile applications development and services	**–**	**100.0**	–	–
Pilipino Telephone Corporation, or Piltel, and Subsidiaries, or Piltel Group*	Philippines	Investment company	**–**	**99.5**	–	92.5
SmartConnect Holdings Pte. Ltd., or SCH:	Singapore	Investment company	**–**	**100.0**	–	100.0
SmartConnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and Global System for Mobile Communication, or GSM, enabled global telecommunications	**–**	**100.0**	–	100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services	**–**	**85.0**	–	85.0
Blue Ocean Wireless, or BOW	Isle of Man	Delivery of GSM communication capability for the maritime sector	**–**	**51.0**	–	28.3
Telesat, Inc., or Telesat	Philippines	Satellite communications services	**100.0**	**–**	100.0	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	**88.5**	**11.5**	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite	Philippines	Satellite communications services	**67.0**	**–**	67.0	–

Name of Subsidiary	Place of Incorporation	Principal Business Activity	2009		2008	
			Percentage of Ownership			
			Direct	**Indirect**	Direct	Indirect
Fixed Line						
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	**100.0**	**–**	100.0	–
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	**100.0**	**–**	100.0	–
PLDT Global Corporation, or PLDT Global, and Subsidiaries, or PLDT Global Group	British Virgin Islands	Telecommunications services	**100.0**	**–**	100.0	–
Smart-NTT Multimedia, Inc., or SNMI	Philippines	Data and network services	**100.0**	**–**	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**	**–**	97.5	–
Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services	**75.0**	**–**	75.0	–
Information and Communications Technology, or ICT						
ePLDT, Inc., or ePLDT:	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, customer interaction solutions and IT-related services	**100.0**	**–**	100.0	–
SPi Technologies, Inc., or SPi, and Subsidiaries, or SPi Group	Philippines	Knowledge processing solutions	**–**	**100.0**	–	100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Customer interaction solutions	**–**	**100.0**	–	100.0
Vocativ Systems, Inc., or Vocativ	Philippines	Customer interaction solutions	**–**	**100.0**	–	100.0
Parlance Systems, Inc., or Parlance	Philippines	Customer interaction solutions	**–**	**100.0**	–	100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet access services	**–**	**99.6**	–	99.6
BayanTrade, Inc. (formerly BayanTrade Dotcom, Inc.), or BayanTrade, and Subsidiaries, or Bayan Trade Group	Philippines	Internet-based purchasing, IT consulting and professional services	**–**	**93.5**	–	10.8
Digital Paradise Thailand, or DigiPar Thailand	Thailand	Internet access services	**–**	**87.5**	–	87.5
netGames, Inc., or netGames	Philippines	Publisher of online games	**–**	**80.0**	–	80.0
Digital Paradise, Inc., or Digital Paradise	Philippines	Internet access services	**–**	**75.0**	–	75.0
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games	**–**	**60.0**	–	60.0

* *On August 17, 2009, Smart acquired the cellular mobile telephone business of Piltel.*

Basis of Consolidation from January 1, 2009

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the PLDT Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of our subsidiaries are prepared for the same reporting period as PLDT. We prepare our consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interest shares in losses even if the losses exceed the non-controlling equity interest in the subsidiary.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the PLDT Group loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest (previously referred to as "minority interest"); (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Basis of Consolidation prior to January 1, 2009

In comparison to the aforementioned policies which are applied on a prospective basis, the following differences applied: (a) acquisition of non-controlling interests was accounted for using the parent entity extension method, whereby, the difference between the consideration and the net book value of the proportionate share in the net assets acquired is recognized as goodwill; (b) the non-controlling interest share in the losses incurred by the PLDT Group until the non-controlling equity interest in the subsidiary was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these excess losses; and (c) upon loss of control, the PLDT Group accounted for the investment retained at its proportionate share of net asset value at the date of control was lost.

Non-controlling interests represent the equity interests in Philcom subsidiaries namely, Metro Kidapawan Telephone Corp., or MKTC, and Datelco Global Communications, Inc., or DGCI; equity interest in BOW, Piltel, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, DigiPar Thailand, netGames, BayanTrade and Infocom not held by the PLDT Group in 2009 and 2008, except for MKTC, DGCI, BOW and BayanTrade, which were acquired only in 2009.

Piltel's Share Buyback Program

On November 3, 2008, the Board of Directors of Piltel approved a share buyback program of up to 58 million shares. As at December 31, 2008, Piltel has already purchased 44.6 million shares at a cost of Php308 million under this program. The buyback was done through the trading facilities of the PSE. In January 2009, Piltel completed the repurchase of the 58 million shares earmarked for the share buyback program at a total cost of Php403 million. On March 2, 2009, Piltel's Board of Directors approved an increase in the number of common shares to be repurchased under the share buyback program of up to 25 million shares, through open market purchases, block trades or other modes subject to compliance with applicable laws, rules and regulations. Piltel's Board of Directors took into account the success of the initial share buyback program which was completed in three months as well as the continued weakness in the equities market. As at March 9, 2009, Piltel completed the repurchase of the 25 million shares at a total cost of Php188 million.

On August 3, 2009, Piltel's Board of Directors approved a share buyback program of up to 61.5 million shares at a maximum price per share of Php8.50 to accommodate non-controlling shareholders who may not have had the opportunity to participate in the tender offer of Smart due to various constraints. As with the previous buyback programs, this will be done directly from the open market through the trading facilities of the PSE and will continue until the number of shares earmarked for the program has been fully repurchased, or until such time as Piltel's Board of Directors determine otherwise. Under this program, Piltel has already purchased 2.8 million shares at a cost of Php23 million as at December 31, 2009.

As at December 31, 2009, cumulative shares repurchased under the share buyback program totaled 85.8 million at an aggregate cost of Php614 million. Shares repurchased under the share buyback program for the years ended December 31, 2009 and 2008 totaling to 41.2 million and 44.6 million treasury shares, respectively, with an aggregate costs of Php305 million and Php308 million, respectively, reduced the amount of non-controlling interests for the same amount.

Acquisition of Debt and Equity of Philcom

On January 2, 2009, PLDT and PremierGlobal Resources, or PGR, executed a Debt Assignment Agreement wherein PGR sold to PLDT for Php340 million of the then outstanding obligations of Philcom to suppliers, banks and other financial institutions, or the Philcom Lenders, that PGR acquired from such Philcom Lenders with a nominal amount of Php3,540 million. Following the execution of the Debt Assignment Agreement, PLDT and Philcom executed a Restructuring Agreement wherein PLDT agreed to the restructuring of the Philcom obligations from the nominal amount of Php3,540 million to Php340 million. The restructured principal of Php340 million is payable by Philcom in 10 equal annual installments starting on January 2, 2010. Interest on the restructured principal is payable on each payment date based on the floating rate of one year PDST-F plus a margin of 250 bps.

On January 3, 2009, PLDT, PGR and Philippine Global Communications, Inc., or 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. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

On April 30, 2009, the Philippine Securities and Exchange Commission, or PSEC, approved the amendment to the Articles of Incorporation and By-Laws of Philcom Corporation changing its name to PLDT-Philcom, Inc. On August 14, 2009, the NTC approved the Share Assignment Agreement between PGCI and PLDT thereby reinforcing the validity of the sale and transfer of equity ownership of Philcom from PGCI to PLDT.

The acquisition of Philcom is expected to allow the PLDT Group to broaden its presence in Mindanao, where it has operations carried out under Maratel and SBI. This expanded presence is expected to benefit not only the existing subscribers in the area, but will also provide the communities in the area with an opportunity to access improved telecommunications facilities.

Sale/Transfer of Piltel's Cellular Mobile Telephone Business/Assets to Smart and Smart's Tender Offer to Piltel's Non-controlling Interest

On June 30, 2009, Piltel's stockholders approved the sale/transfer of Piltel's cellular mobile telephone business/assets to Smart through a series of transactions, which include: (a) the assignment of Piltel's *Talk 'N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of Php73 per subscriber, which is equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. As a result, the cellular mobile telephone business will therefore be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between Piltel and Smart. The transfer was completed on August 17, 2009. The NTC approved the request for the sale and transfer of Piltel's subscribers to Smart submitted on July 8, 2009. The foregoing transactions between Smart and Piltel are eliminated in our consolidated financial statements.

In view of the change in Piltel's business direction, Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire approximately 840 million shares from Piltel's non-controlling shareholders at Php8.50 per share payable in cash and in full on August 12, 2009. These shares represented approximately 7.2% of the outstanding common stock of Piltel at that time. Smart filed the Tender Offer Report with the PSEC and the PSE on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code, or SRC. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of Piltel's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of Piltel. 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 statements of financial position. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

Additional Investment of ePLDT in BayanTrade

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 cash consideration of Php28 million and acquisition of additional 48.4% equity interest on April 15, 2009 for cash consideration of Php39 million. BayanTrade officers and employees own 6.5% equity interest in BayanTrade, excluding unexercised warrants and options granted to officers and employees. On a fully diluted basis after considering the warrants and options, ePLDT owns 93.5% equity interest in BayanTrade as at December 31, 2009. Effective April 2009, BayanTrade financials were included in the consolidation of ePLDT Group. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

BayanTrade engages in the business of providing: (a) a business-to-business electronic marketplace to link buyers and suppliers of goods and services over the internet; (b) electronic catalogue purchasing facilities over the internet to buyers and suppliers; (c) online bidding services for negotiating typically large value and volume transactions over the internet; (d) link-up with similar horizontal markets and vertical markets across the Asia-Pacific Region and the world; (e) information technology services, including contact center operations, software development, business process outsourcing, internal access and e-commerce services, back office processing and system integration; and (f) facilitating services incidental to the business. BayanTrade was incorporated initially as an e-procurement joint venture established with six of the Philippines' leading conglomerates. It is now the leading authorized software reseller in the Philippines of Global ERP software.

Additional Investment of Smart in BOW

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 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 exchanged for receivables from BOW. Effective July 2009, BOW financials were included in the consolidation of Smart Group. See *Note 10 – Investments in Associates and Joint Ventures* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

SPi's Acquisition of Laguna Medical Systems, Inc., or Laguna Medical

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 cash consideration of US$6.6 million, or Php313 million. Simultaneous to the acquisition of 80% equity interest, SPi signed a Put-Call Agreement with Laguna Medical LLC, a Delaware Corporation and Parent Company of Laguna Medical, for the right to call the remaining 20% of the outstanding common stock of Laguna Medical. Commencing on July 1, 2011, Laguna Medical LLC grants SPi the exclusive right to purchase Laguna Medical shares (call right) while SPi grants Laguna Medical LLC the exclusive right to put the Laguna Medical shares (put right). 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 20% interest is already in the possession of SPi on August 31, 2009. The effective ownership interest acquired by SPi on August 31, 2009 is 100% of Laguna Medical. The acquisition cost for the remaining 20% of the outstanding common stock of Laguna Medical shall be equivalent to the base price of US$2 million plus the movements of Laguna Medical EBITDA from the date of acquisition to April 30, 2011 multiplied by applicable factors specified in the agreement. The estimated fair value of the contingent liability from this Put-Call Agreement as at December 31, 2009 amounted to US$5.4 million, or Php256 million, which is presented as part of contingent consideration for business acquisitions under "Deferred credits and other noncurrent liabilities" and "Accrued expenses and other current liabilities" in our consolidated statements of financial position. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests, Note 21 – Deferred Credits and Other Noncurrent Liabilities* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Laguna Medical has more than 50 regionally-based consultants assisting more than 200 hospitals. It aims to achieve coding and billing compliance, to optimize entitled reimbursements for patient services and to help healthcare providers to manage and defend Recovery Audit Contractor audits.

Smart's Acquisition of PDSI

Smart acquired 84 million shares, the total issued and outstanding capital stock of PDSI, for a total consideration of Php1,569 million. 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, Voice over Internet Protocol, or VoIP, and other value added services, or VAS, such as server co-location and data center services. The acquisition was completed on two dates: (a) the First Closing which took place on May 14, 2009, involved the acquisition of 34 million shares representing 40% interest for a consideration of Php632 million; and (b) the Second Closing which took place on October 2, 2009, involved the acquisition of 50 million shares representing 60% interest for a consideration of Php937 million. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

Smart's Acquisition of Chikka

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka 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 closing date of December 18, 2009 and the balance of US$1.4 million, or Php65 million, shall be settled on a date mutually acceptable to both parties. Smart and Chikka will agree on a mutually acceptable schedule for post-closing date, which shall be on a date in which all post-closing deliverables are ready to be delivered by Chikka to Smart. Chikka was incorporated in the British Virgin Islands on April 5, 2000 to engage in the business of providing 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. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

Statement of Compliance

Our consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policy and Disclosures

Our accounting policies are consistent with those of the previous financial year except for the adoption of the new standard, interpretations and amendments to existing standards which became effective on January 1, 2009 as follows:

- *PFRS 2, Share-based Payment – Vesting Condition and Cancellations;*
- *Revised PFRS 3, Business Combinations and Philippine Accounting Standards, or PAS, 27, Consolidated and Separate Financial Statements (effective July 1, 2009 but early adopted by the PLDT Group effective January 1, 2009) including consequential amendments to PFRS 7, Financial Instruments: Disclosures, PAS 21, The Effects of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates, PAS 31, Interests in Joint Ventures* and *PAS 39, Financial Instruments: Recognition and Measurement;*
- *Amendments to PFRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments;*
- *PFRS 8, Operating Segments;*
- *Amendments to PAS 1, Presentation of Financial Statements;*
- *Revised PAS 23, Borrowing Costs;*
- *Amendments to PAS 27, Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;*
- *Amendments to PAS 32, Financial Instruments: Presentation* and *PAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;*
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes;*
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation;*
- *Philippine Interpretation IFRIC 18, Transfer of Assets from Customers;* and
- *Improvements to PFRSs (2008).*

The principal effects of adoption of the new accounting standard, interpretations and amendments are as follows:

- ***PFRS 2, Share-based Payment – Vesting Condition and Cancellations.*** The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The adoption of *PFRS 2* revisions did not have any impact on our consolidated financial position and performance.

- ***Revised PFRS 3, Business Combinations* and *PAS 27, Consolidated and Separate Financial Statements.*** The revised *PFRS 3* was adopted from January 1, 2009. It introduces significant changes in the accounting for business combinations occurring after January 1, 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combination achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the year that an acquisition occurs, and future reported results.

  The revised *PAS 27* requires that: (a) change in ownership interests of a subsidiary without loss of control is accounted for as a transaction with owners in their capacity as owners and therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes in accounting policy are to be applied retrospectively with the following exceptions which are applied prospectively from January 1, 2009: (a) the allocation of profits and losses to non-controlling interests in periods before the standard is applied are not restated; (b) changes in ownership interests (without loss of control) occurring before the standard is applied are not restated; and (c) the carrying amount of an investment in a former subsidiary, where control was lost in periods before the standard is applied, is not restated. Accordingly, the gains or losses arising from such transactions are not recalculated. The adoption of revised *PAS 27* did not affect previous years' account balances.

  See Smart's acquisition of non-controlling interests in Piltel on *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

- ***Amendments to PFRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments.*** These amendments to *PFRS 7* introduce enhanced disclosures about fair value measurement and liquidity risk. The amendments to *PFRS 7* require fair value measurements for each class of financial instruments recorded and measured at fair value are to be disclosed by the source of inputs, using the following three-level hierarchy: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The level within which the fair value measurement is categorized must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

  The amendments to *PFRS 7* also introduce two major changes in liquidity risk disclosures as follows: (a) exclusion of derivative liabilities from maturity analysis unless the contractual maturities are essential for an understanding of the timing of the cash flows; and (b) inclusion of financial guarantee contracts in the contractual maturity analysis based on the maximum amount guaranteed.

  Additional disclosures required by amendments to *PFRS 7* are shown in *Note 28 – Financial Assets and Liabilities*.

- ***PFRS 8, Operating Segments.*** *PFRS 8* replaces *PAS 14, Segment Reporting* and adopts a full management approach in identifying, measuring and disclosing the results of an entity's operating segments. The information required to report is similar to what management uses internally for evaluating the performance of operating segments and allocating resources to those segments. In cases where such information is different from those required to be reported in the consolidated statement of financial position and consolidated income statement, the entity needs to provide explanations and reconciliations of the differences. The PLDT Group concluded that the operating segments determined in accordance with *PFRS 8* are the same as the business segments previously identified under *PAS 14*. Additional disclosures required by the new standard are shown in *Note 4 – Operating Segment Information*.

- ***Amendments to PAS 1, Presentation of Financial Statements.*** The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owner, while non-owner changes in equity are presented with a reconciliation for each component of equity. In addition, these amendments introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate income statement and a statement of comprehensive income. These amendments also prescribe additional requirements in the presentation of the statement of financial position and owner's equity as well as additional disclosures. The PLDT Group has elected to present two linked statements together with additional presentation and disclosures provided on the face of the financial statements or notes, where applicable. In addition, we also changed the caption consolidated balance sheet to consolidated statement of financial position.

- ***Revised PAS 23, Borrowing Costs.*** The standard has been revised to require capitalization of borrowing costs when such costs relate to construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of revised *PAS 23* did not have any impact in our consolidated financial statements as we previously capitalized borrowing costs eligible for capitalization.

- ***Amendments to PAS 27, Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*** These amendments prescribe changes in respect of the holding companies' separate financial statements including: (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The adoption of these amendments to *PAS 27* is applicable only to PLDT's separate financial statements and did not have any impact in our consolidated financial statements.

- ***Amendments to PAS 32, Financial Instruments: Presentation*** **and** ***PAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.*** These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. The adoption of these amendments to *PAS 32* and *PAS 1* did not have any impact in our consolidated financial statements.

- ***Philippine Interpretation IFRIC 13, Customer Loyalty Programmes.*** This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized as income over the period that the award credits are redeemed or expired. The adoption of this new interpretation did not have significant impact on our financial position and financial performance. Our accounting policies were updated to conform with the requirements of Philippine Interpretation *IFRIC 13*.

- ***Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation.*** This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be reclassified to profit or loss from the foreign currency translation reserve on disposal of the net investment. The adoption of this new interpretation did not have any impact in our consolidated financial statements as we do not enter in such type of hedge accounting transactions.

- ***Philippine Interpretation IFRIC 18, Transfer of Assets from Customers.*** Philippine Interpretation *IFRIC 18* provides guidance to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such item and such item is used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The interpretation requires an assessment of whether an item of property, plant and equipment or cash for the acquisition or construction of such item meets the definition of an asset. If the terms of the agreement are within the scope of this interpretation, a transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services. Consequently, the exchange is regarded as a transaction which generates revenue. This interpretation is applied prospectively to transfer of assets from customers received in periods beginning on or after July 1, 2009. Entities may, however, choose to apply this interpretation to earlier periods, provided valuations can be obtained at the time the transfer occurred. The adoption of this interpretation did not have any impact in our consolidated financial statements.

Improvements to PFRSs

The omnibus amendments to certain standards were issued in 2008 and 2009 primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies and disclosures but did not have any impact on our financial position or performance:

- ***PAS 1, Presentation of Financial Statements.*** Assets and liabilities classified as held-for-trading are not automatically classified as current in the statement of financial position.

- ***PAS 16, Property, Plant and Equipment.*** The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with *PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations* and *PAS 36, Impairment of Assets.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- ***PAS 18, Revenue.*** The amendment provides additional guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as agent. The features indicating an entity is acting as a principal are whether the entity: (a) has primary responsibility for providing the goods or services; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk.

- ***PAS 19, Employee Benefits.*** Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. Deletes the reference to the recognition of contingent liabilities to ensure consistency with *PAS 37, Provisions, Contingent Liabilities and Contingent Assets*.

- ***PAS 23, Borrowing Costs.*** Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- ***PAS 28, Investments in Associates.*** If an associate is accounted for at fair value in accordance with *PAS 39,* only the requirement of *PAS 28* to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- ***PAS 31, Interests in Joint Ventures.*** If a joint venture is accounted for at fair value, in accordance with *PAS 39*, only the requirements of *PAS 31* to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- ***PAS 36, Impairment of Assets.*** When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- ***PAS 38, Intangible Assets.*** Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- ***PAS 39, Financial Instruments: Recognition and Measurement.*** Changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications. Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge. Requires the use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- ***PAS 40, Investment Property.*** Revises the scope (and the scope of *PAS 16*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

The adoption of new accounting standard, interpretations and amendments that requires retrospective restatement had no impact on the comparative statement of financial position.

Significant Accounting Policies

Business Combinations and Goodwill

Business Combinations from January 1, 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

When we acquire a business, we assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with *PAS 39* either in profit or loss or as charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business Combinations prior to January 1, 2009

In comparison to the above mentioned policies, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combination achieved in stages was accounted for as separate steps. Any additional acquisition do not affect previously recognized goodwill.

When we acquire a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, we have present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration are charged to goodwill except for accretion of interest which is recognized in profit or loss.

Investments in Associates

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in our consolidated statement of financial position at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized nor individually tested for impairment. Our consolidated income statement reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, we recognize our share in such change and disclose this, when applicable, in our consolidated statements of comprehensive income and changes in equity. Unrealized gains and losses resulting from our transactions with and among our associates are eliminated to the extent of our interest in those associates.

The share in the profit and losses of associates is shown on the face of our consolidated income statement. This is the profit or losses attributable to equity holders of the associate and therefore is profit or losses after tax and net of non-controlling interest in the subsidiaries of the associates.

Our reporting dates and that of our associates are identical and our associates' accounting policies conform to those used by us for like transactions and events in similar circumstances. Where necessary, adjustments are made to bring such accounting policies in line with those of PLDT Group.

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss on our investments in associates. We determine at the end of each reporting period whether there is any objective evidence that our investment in associate is impaired. If this is the case, we calculate the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognize the amount in our consolidated income statement.

Upon loss of significant influence over the associate, we measure and recognize any retaining investment at its fair value. Any difference between the carrying amounts of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Investments in Joint Ventures

Investments in a joint venture that is a jointly controlled entity is accounted for using the equity method of accounting. The financial statements of the joint venture are prepared for the same reporting period as our consolidated financial statements. Where necessary, adjustments are made to bring the accounting policies in line with those of PLDT Group.

Adjustments are made in our consolidated financial statements to eliminate our share of unrealized gains and losses on transactions between PLDT and our jointly controlled entity. The joint venture is carried at equity method until the date on which we cease to have joint control over the jointly controlled entity.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control, and the fair value of the remaining investment and proceeds from disposal, are recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Foreign Currency Transactions and Translations

Our consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. The Philippine peso is the currency of the primary economic environment in which we operate. This is also the currency that mainly influences the revenue from and cost of rendering products and services. Each entity in the PLDT Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities under PLDT Group (except for SCH, SGP, 3rd Brand, BOW, SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, DigiPar Thailand, SPi and certain of its subsidiaries, certain subsidiaries of Chikka, and certain subsidiaries of BayanTrade in 2009 and 2008, except for BOW, certain subsidiaries of Chikka and certain subsidiaries of BayanTrade, which were acquired only in 2009) is the Philippine peso.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in our consolidated income statement except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; Thai baht for DigiPar Thailand; and Singapore dollar for SCH, SGP, 3rd Brand, BOW, and certain subsidiaries of BayanTrade. As at the reporting date, the assets and liabilities of these subsidiaries are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting period, and income and expenses of these subsidiaries are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation were recognized as a separate component of other comprehensive income as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in other comprehensive income relating to subsidiaries are recognized in our consolidated income statement.

Foreign exchange gains or losses of PLDT and our Philippine-based subsidiaries are treated as taxable income or deductible expenses in the year such exchange gains or losses are realized.

Financial Assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, reevaluate the designation of such assets at each financial year-end.

Financial assets are recognized initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Our financial assets include cash and cash equivalents, short-term investments, trade and other receivables, quoted and unquoted equity and debt securities, advances and refundable deposits, and derivative financial assets.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial assets. Interest earned and dividends received from investment at fair value through profit or loss are recognized in our consolidated income statement under "Interest income" and "Other income", respectively.

Financial assets may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different bases; (ii) the assets are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial assets contain one or more embedded derivatives that would need to be separately recorded.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in our consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in our consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when we have the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate method. Gains or losses are recognized in our consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned or incurred is recorded in "Interest income" in our consolidated income statement. Assets in this category are included in the current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income account until the investment is derecognized, at which time the cumulative gain or loss recorded in other comprehensive income account is recognized in our consolidated income statement; or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income account is recognized in our consolidated income statement. Interest earned on holding available-for-sale debt securities are included under "Interest income" using the effective interest rate in our consolidated income statement. Dividends earned on holding available-for-sale equity investments are recognized in our consolidated income statement under "Other income" when the right of the payment has been established. These are included under noncurrent assets unless we intend to dispose of the investment within 12 months of the end of the reporting period.

Financial Liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of our financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of directly attributable transaction costs.

Our financial liabilities include accounts payable, accrued expense and other current liabilities, interest-bearing financial liabilities, customers' deposits, derivative financial liabilities, dividends payable, and accrual for long-term capital expenditures.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of repurchasing in the near term. Derivative liabilities, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit and loss are carried in our consolidated statement of financial position at fair value with gains or losses recognized in our consolidated income statement under "Gains (losses) on derivative financial instruments – net" for derivative instruments and "Other income" for non-derivative financial liabilities.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the company is provided internally on that basis to the entity's key management personnel; or (iii) the financial liabilities contain one or more embedded derivatives that would need to be separately recorded.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method, or EIR.

Gains and losses are recognized in our consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. The EIR amortization is included under "Financing costs – net" in our consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in our consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest rate.

Day 1 profit or loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, we recognize the difference between the transaction price and fair value (a Day 1 profit or loss) in our consolidated income statement unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in our consolidated income statement when the inputs become observable or when the instrument is derecognized. For each transaction, we determine the appropriate method of recognizing the Day 1 profit or loss amount.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "Asset impairment" in our consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to us. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in our consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Available-for-sale financial assets

For available-for-sale financial assets, we assess at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income account is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income account.

In the case of debt instruments classified as available-for-sale financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in our consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in our consolidated income statement, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; or (2) we have transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) we have transferred substantially all the risks and rewards of the asset; or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred its rights to receive cash flows from an asset or have entered into a "pass-through" arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of our continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that we could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative Financial Instruments and Hedging

Initial recognition and subsequent measurement

We use derivative financial instruments, such as long-term currency swaps, foreign currency options, forward currency contracts and interest rate swaps, to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the "Gains (losses) on derivative financial instruments – net" in our consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined using applicable valuation techniques. See *Note 28 – Financial Assets and Liabilities*.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); or (2) cash flow hedges when hedging exposure to variability in cash flows that is neither attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how we will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. In a situation when that hedged item is a forecast transaction, we assess whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect our consolidated income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in our consolidated income statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in our consolidated income statement.

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in our consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in our consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in our statement of comprehensive income, while any ineffective portion is recognized immediately in our consolidated income statement.

Amounts taken to other comprehensive income are transferred to our consolidated income statement when the hedged transaction affects our consolidated income statement, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to our consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in our consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to our consolidated income statement.

Convertible Preferred Stock

Philippine peso-denominated

The component of our convertible preferred stock that exhibits characteristics of a liability is recognized as a liability under "Interest-bearing financial liabilities" in our consolidated statement of financial position, net of transaction costs. The corresponding dividends on those shares are charged as part of interest expense account under "Financing costs – net" in our consolidated income statement. On issuance of our convertible preferred stock, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability measured at amortized cost (net of transaction costs) basis until extinguished through conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in the equity section of our consolidated statement of financial position, net of transaction costs. The carrying amount of the conversion option is not remeasured subsequent to initial recognition.

Transaction costs are apportioned between the liability and equity components of the convertible preferred stock based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Foreign currency-denominated

We treat the Series VI Convertible Preferred Stock as debt instruments with foreign currency-denominated embedded call options. The fair value of embedded call options as of issuance date was bifurcated and thereafter accounted for separately at fair value through profit or loss. The residual amount was assigned as a liability component and accreted to the redemption amount up to the call option date using the effective interest rate method.

Property, Plant and Equipment

Property, plant and equipment, except for land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment losses. Cost includes the cost of replacing part of the property, plant and equipment when the cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in our consolidated income statement as incurred. The present value of the expected cost of the decommissioning of the asset after our use is included in the cost of the respective assets if the recognition criteria for a provision are met. Land is stated at cost less any impairment in value.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives used in depreciating our property, plant and equipment is disclosed in *Note 9 – Property, Plant and Equipment*.

The asset's residual value, estimated useful life and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and available for its intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installation in leased sites and restore such sites to their original condition at the end of the lease contract term. We recognize the liability measured at the present value of the estimated costs of these obligations and capitalize such costs as part of the balance of the related item of property, plant and equipment. The amount of asset retirement obligations are accreted and such accretion is recognized as interest expense.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which have been determined based on the latest valuations performed by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in our consolidated income statement in the year in which they arise. Where an entity is unable to determine the fair value of an investment properties under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time that fair value can be determined or construction is completed.

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in our consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired from business combinations is initially recognized at fair value on the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite useful life.

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in our consolidated income statement when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the year in which the expenditures are incurred.

Research and Development Costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an intangible asset when we can demonstrate: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) our intention to complete and our ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the availability of resources to complete the asset; and (5) the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Inventories and Supplies

Inventories and supplies, which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost incurred in bringing each items of inventories and supplies to its present location are accounted using the weighted average method. Net realizable value is determined by either estimating the selling price in the ordinary course of the business less the estimated cost to sell or determining the prevailing replacement costs.

Impairment of Non-Financial Assets

Property, plant and equipment

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multipliers, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in our consolidated income statement.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in our consolidated income statement. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic useful life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of the cash-generating unit, or group of cash-generating units, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

If the allocation of goodwill acquired in a business combination to cash generating units, or groups of cash generating units, is incomplete, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate. We calculate the amount of impairment as being the difference between the recoverable amount of the intangible asset and its carrying amount and recognize the amount of impairment in our consolidated income statement. Impairment losses relating to intangible assets can be reversed in future periods.

Investments in associates and joint ventures

We determine at the end of each reporting period whether there is any objective evidence that our investments in associates and joint ventures are impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the investments in associates and joint ventures, and its carrying amount. The amount of impairment loss is recognized in our consolidated income statement.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and for which there is an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from date of acquisition.

Trade and Other Receivables

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in our consolidated income statement.

When a trade and other receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in our consolidated income statement.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, and overseas communication tax, or OCT, where applicable. We provide wireless communication, fixed line communication, and ICT services. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service has occurred. In certain circumstances, revenue is split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transactions. The value of components is determined using verifiable objective evidence. Under certain arrangements where the above criteria are met, but 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 do not provide our customers with the right to a refund. The following specific recognition criteria must also be met before revenue is recognized:

Service Revenues

Subscriptions

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular services. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro-rata basis.

Air time, traffic and value-added services

Prepaid service revenues collected in advance are deferred and recognized based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit, and network usage are recognized in the year the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for calls terminating in their territories. Revenues related to products and value-added services are recognized upon delivery of the product or service.

Knowledge processing solutions and customer interaction solutions

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue are recorded as advances from customers and presented as a liability in our consolidated statement of financial position. If the fee is not measurable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

Incentives

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction of revenue. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Our wireless segment operates two loyalty points programmes, one for *Smart Money* cardholders and another for subscribers of *Smart Gold, Smart Buddy* and *SmartBro*. The loyalty programme for *Smart Money* allows cardholders, upon enrollment, to accumulate points when they use their card for purchases, *Smart Load* payments, and reloads for Smart's prepaid cards and *Smart Money*. The points for the programme can then be redeemed for airtime or load wallet. On the other hand, the loyalty programme for Smart's cellular and broadband subscribers allows postpaid subscribers to accumulate points for billed transactions and prepaid subscribers for reloads or top-ups. The points for the loyalty programme for the subscribers can then be redeemed, upon registration, for bill rebates, discounts on cellular phonekit purchases, on-network short messaging services or internet surf time. Redemption for both programmes are subject to a minimum number of points being obtained. Consideration received is allocated between the services sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued are deferred and recognized as revenue when the points are redeemed.

Prior to the adoption of Philippine Interpretation *IFRIC 13*, we accounted for reward credits granted to customers in conjunction with the sale of the products and services by recognizing the estimated cost of providing free or discounted goods or services to customers that are expected to redeem accumulated award credits.

Non-service Revenues

Handset and equipment sales

Sale of cellular handsets and communication equipment are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the effective interest rate. The majority of interest income represents interest earned from cash and cash equivalents, short-term investments and investment in debt securities.

Expenses

Expenses are recognized as incurred.

Provisions

We recognize provision when we have present obligation, legal or constructive, as a result of past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in our consolidated income statement, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Retirement Benefits

Defined benefit pension plans

We have separate and distinct retirement plans for PLDT and majority of our Philippine-based operating subsidiaries, administered by respective Fund's Trustees, covering permanent employees. Retirement costs are separately determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on government bonds), less past service cost and actuarial gains and losses not yet recognized, and less the fair value of plan assets out of which the obligations are to be settled directly. Plan assets are assets that are held by a long-term employee benefit fund and are not available to our creditors nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service cost and actuarial gains and losses not yet recognized, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined contribution plans

Smart and I-Contacts record expenses for defined contribution plans for their contribution when the employee renders service to Smart and I-Contacts, respectively, essentially coinciding with their cash contributions to the plans.

Share-Based Payment Transactions

Certain of our employees (including advisors) receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in *Note 25 – Share-based Payments and Employee Benefits*. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of PLDT ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in our opinion, at that date, based on the best available estimate. The consolidated income statement credit or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled awards are modified and the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant due date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Where an equity-settled award is cancelled with payment, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share. See *Note 8 – Earnings Per Common Share*.

Cash-settled transactions

Our Long-Term Incentive Plan, or LTIP, grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from our 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 for the year.

Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership. All other leases are classified as operating leases. Operating lease payments are recognized as an expense in our consolidated income statement on a straight line basis over the lease term.

A finance lease gives rise to a depreciation expense for the asset, as well as an interest expense for each year. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax, or MCIT, over regular corporate income tax, or RCIT, and unused net operating loss carry over, or NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefit of unused tax credits and unused tax losses can be utilized except: (1) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting period.

Deferred income tax relating to items recognized in other comprehensive income account is included in the statement of comprehensive income and not in our consolidated income statement.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Contingencies

Contingent liabilities are not recognized in our consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post year-end events that provide additional information about our financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Equity

Preferred and common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value are recognized as capital in excess of par value.

Stock options issued represent the cumulative compensation expense recognized from our equity-settled share based payment plan, net of cumulative compensation expense related to exercised and expired stock options. Where exercise of stock option is made or stock options expire, the portion attributable to such exercised and expired stock options are transferred to capital in excess of par value.

Treasury stocks are our own equity instruments which are reacquired and recognized at cost and presented as reduction in equity. No gain or loss is recognized in our consolidated income statement on the purchase, sale, reissuance or cancellation of our own equity instruments. Any difference between the carrying amount and the consideration upon reissuance or cancellation of shares is recognized as capital in excess of par value.

Change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction and presented as part of capital in excess of par value.

Retained earnings represent our accumulated earnings net of dividends declared.

Other comprehensive income comprise items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRS.

Non-controlling interests represent the equity interests in MKTC, DGCI, BOW, Piltel, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, DigiPar Thailand, netGames, BayanTrade and Infocom not held by the PLDT Group.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009

We will adopt the revised standards, amendments and interpretations enumerated below when these become effective. Except as otherwise indicated, we do not expect the adoption of these revised standards, interpretations and amendments to PFRS to have a significant impact on our consolidated financial statements.

Effective 2010

Amendment to PFRS 2, Share-based Payment. The amendments clarify how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. It further states that an entity that receives goods or services in a share-based payment arrangement must account for these goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled.

PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations. When a subsidiary is held for sale, all of its assets and liabilities will be classified as held-for-sale under *PFRS 5*, even when the entity retains a non-controlling interest in the subsidiary after the sale.

Amendment to PAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items. Amendments to *PAS 39* will be effective for annual periods beginning on or after July 1, 2009, which addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners. This interpretation provides guidance on non-reciprocal distribution of assets by an entity to its owners acting in their capacity as owners, including distributions of non-cash assets and those giving the shareholders a choice of receiving non-cash assets or cash, provided that: (a) all owners of the same class of equity instruments are treated equally; and (b) the non-cash assets distributed are not ultimately controlled by the same party or parties both before and after the distribution, and as such, excluding transactions under common control. This interpretation is applied prospectively and is applicable for annual periods beginning on or after July 1, 2009 with early application permitted.

Improvements to PFRSs

The Financial Reporting Standards Council approved in its meeting in May 2009 the adoption of Improvements to International Financial Reporting Standards issued by the International Accounting Standards Board in April 2009. There are separate transitional provisions for each standard which are all effective beginning January 1, 2010.

- ***PFRS 2, Share-based Payment.*** The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of *PFRS 2* even though they are out of scope of Revised *PFRS 3*.

- ***PFRS 5, Noncurrent Assets Held-for-Sale and Discontinued Operations.*** The amendment clarifies that the disclosures required in respect of noncurrent assets or disposal groups classified as held for sale or discontinued operations are only those set out in *PFRS 5*. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

  It also clarifies that the general requirements of *PAS 1* still apply, particularly paragraphs 15 (to achieve fair presentation) and 125 (sources of estimation and uncertainty) of *PAS 1*.

- ***PFRS 8, Operating Segments.*** The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- ***PAS 1, Presentation of Financial Statements.*** The terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- ***PAS 7, Statement of Cash Flows.*** The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- ***PAS 17, Leases.*** The amendment removes the specific guidance on classifying land as lease so that only the general guidance remains.

- ***PAS 36, Impairment of Assets.*** The amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in *PFRS 8*, before aggregation for reporting purposes.

- ***PAS 38, Intangible Assets.*** The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- ***PAS 39, Financial Instruments: Recognition and Measurement.*** The amendment clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The amendment also clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken. It also clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently result in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the year that the hedged forecast cash flows affect profit or loss.

- ***Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives.*** The improvement clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- ***Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation.*** The improvement states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of *PAS 39* that relate to a net investment hedge, are satisfied.

Effective 2012

Philippine Interpretation IFRIC 15, Agreements for Construction of Real Estate. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under *PAS 11, Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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3. Management's Use of Judgments, Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the 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 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.

Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional and presentation currency of the PLDT Group (except for SCH, SGP, 3rd Brand, BOW, SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, DigiPar Thailand, SPi and certain of its subsidiaries, certain subsidiaries of Chikka, and certain subsidiaries of BayanTrade in 2009 and 2008, except for BOW, certain subsidiaries of Chikka and certain subsidiaries of BayanTrade, which were acquired only in 2009) is the Philippine peso. On the other hand, the functional and presentation currency of SMHC, SMI, TSI, Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries, and certain subsidiaries of Chikka is the U.S. dollar; Thai baht for DigiPar Thailand; and Singapore dollar for SCH, SGP, 3rd Brand, BOW, 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 *PAS 17* 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 Php4,055 million, Php3,656 million and Php2,762 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total finance lease obligations as at December 31, 2009 and 2008 amounted to Php64 million and Php70 million, respectively. See *Note 20 – Interest-bearing Financial Liabilities, Note 26 – Contractual Obligations and Commercial Commitments* and *Note 28 – Financial Assets and Liabilities*.

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

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the 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, intangible assets and other noncurrent assets, requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires us to make estimates and assumptions that can materially affect our consolidated financial statements. Future events could cause us to conclude that property, plant and equipment, investments, intangible assets and other noncurrent assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS. Total impairment charges (including provision for doubtful account receivables and write-down of inventories and supplies) for the years ended December 31, 2009, 2008 and 2007 amounted to Php5,061 million, Php4,180 million and Php1,317 million, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 10 – Investments in Associates and Joint Ventures*.

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,* respectively.

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 operating expenses and decrease our noncurrent assets.

The total depreciation and amortization of property, plant and equipment amounted to Php25,607 million, Php24,709 million and Php28,613 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization, amounted to Php161,256 million and Php160,326 million as at December 31, 2009 and 2008, respectively. SBI recognized additional depreciation and amortization charge of Php830 million for the year ended December 31, 2009 due to a decrease in the estimated useful lives of certain customer premise equipment included in the telecommunications equipment account as a result of decreased expected economic benefits from such equipment. See *Note 4 – Operating Segment Information* and *Note 9 – Property, Plant and Equipment*.

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 are annually performed every December 31.

Net gains from fair value adjustments in our investment properties for the years ended December 31, 2009, 2008 and 2007 amounted to Php352 million, Php59 million and Php3 million, respectively. Total carrying values of our investment properties as at December 31, 2009 and 2008 amounted to Php1,210 million and Php617 million, respectively. See *Note 12 – Investment Properties*.

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

Intangible assets acquired from business combination with finite lives are amortized over the 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 Php368 million, Php377 million and Php390 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total carrying values of goodwill and intangible assets as at December 31, 2009 and 2008 amounted to Php13,024 million and Php10,450 million, respectively. See *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests* and *Note 14 – Goodwill and Intangible Assets*.

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 reduced these to the extent that it is 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 and some of its subsidiaries' projected gross margin, they expect to use the OSD method in the foreseeable future.

Based on the above assessment, our unrecognized consolidated deferred income tax assets due to insufficient taxable income as at December 31, 2009 and 2008 amounted to Php1,236 million and Php545 million, respectively. In addition, our unrecognized deferred income tax assets and liabilities for items which would not result to future tax consequences when using the OSD method amounted to Php4,280 million and Php984 million, respectively. Total consolidated provision for deferred income tax amounted to Php656 million, Php2,715 million and Php8,031 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total consolidated net deferred income tax assets as at December 31, 2009 and 2008 amounted to Php7,721 million and Php9,605 million, respectively, while total consolidated net deferred income tax liabilities as at December 31, 2009 and 2008 amounted to Php1,321 million and Php1,288 million, respectively. See *Note 4 – Operating Segment Information* and *Note 7 – Income Tax*.

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 collectability of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including but not limited to, the length of our relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are reevaluated 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 Php2,335 million, Php1,079 million and Php417 million for the years ended December 31, 2009, 2008 and 2007, respectively. Trade and other receivables, net of asset impairment, amounted to Php14,729 million and Php15,909 million as at December 31, 2009 and 2008, 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*.

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 and unusable are written-off and charged as expense in our consolidated income statement.

Total write-down of inventories and supplies recognized for the years ended December 31, 2009, 2008 and 2007 amounted to Php389 million, Php242 million and Php243 million, respectively. The carrying values of inventories and supplies amounted to Php2,165 million and Php2,069 million as at December 31, 2009 and 2008, respectively. See *Note 4 – Operating Segment Information, Note 5 – Income and Expenses* and *Note 17 – Inventories and Supplies*.

Estimation of pension benefit costs and retirement 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*. 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 defined benefit obligation and the fair value of plan assets at that date. These 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 each reporting date.

Total consolidated pension benefit costs amounted to Php1,306 million, Php725 million and Php1,773 million for the years ended December 31, 2009, 2008 and 2007, respectively. Unrecognized net actuarial loss as at December 31, 2009 and 2008 amounted to Php2,474 million and Php1,126 million, respectively. As at December 31, 2009, the prepaid benefit costs amounted to Php5,414 million. As at December 31, 2009 and 2008, the accrued benefit costs amounted to Php359 million and Php2,623 million, respectively. See *Note 5 – Income and Expenses, Note 18 – Prepayments* and *Note 25 – Share-based Payments and Employee Benefits*.

Share-based payment transactions

Our LTIP grants SARs to our eligible key executives and advisors. Under the 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 statements of income. The estimates and assumptions are described in *Note 25 – Share-based Payments and Employee Benefits* 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 LTIP recognized as expense for the years ended December 31, 2009, 2008 and 2007 amounted to Php1,833 million, Php1,281 million and Php1,448 million, respectively. As at December 31, 2009 and 2008, outstanding LTIP liability amounted to Php4,582 million and Php2,749 million, respectively. See *Note 5 – Income and Expenses, Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 25 – Share-based Payments and Employee Benefits.*

Provision for asset retirement obligations

Provision for asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the future restoration/dismantlement date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php1,204 million and Php1,100 million as at December 31, 2009 and 2008, respectively. See *Note 21 – Deferred Credits and Other Noncurrent Liabilities*.

Provision for legal contingencies and tax assessments

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims has been developed 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*.

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, there is no assurance that 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 and recognized when the related components are delivered in order to reflect the substance of the transaction. The fair value of components is determined using verifiable objective evidence.

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 as at December 31, 2009 amounted to Php58,225 million and Php164,998 million, respectively, while the total fair values of financial assets and liabilities as at December 31, 2008 amounted to Php59,463 million and Php119,717 million, respectively. See *Note 28 – Financial Assets and Liabilities*.

4. Operating Segment Information

Operating segments are components of the PLDT Group that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT Group), which operating results are regularly reviewed by the chief operating decision maker to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available.

For management purposes, we are organized into business units based on our products and services and have three reportable operating segments as follows:

- Wireless – wireless telecommunications services provided through our cellular service providers namely, Smart, Piltel (on August 17, 2009, Smart acquired the cellular business of Piltel) and CURE; SBI, BOW, Airborne Access and PDSI, our wireless broadband service providers; Wolfpac and Chikka Group, our wireless content operators; and Mabuhay Satellite and ACeS Philippines, our satellite operators;

- Fixed Line – fixed line telecommunications services primarily provided by PLDT. We also provide fixed line services through PLDT's subsidiaries ClarkTel, SubicTel, Philcom, 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 interaction solutions provided under the umbrella brand name *ePLDT Ventus*, including Ventus, Parlance and Vocativ; and 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*.

The chief operating decision maker and management monitors the operating results of each business unit separately for purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization, or EBITDA; EBITDA margin; and core income. Net income for the year is measured consistent with consolidated net income in the consolidated financial statements.

EBITDA is measured as net income excluding depreciation and amortization, amortization of intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity 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 nonrecurring gains (losses) – net.

EBITDA margin pertains to EBITDA divided by service revenues.

Core income for the year is measured as net income attributable to equity holders of PLDT excluding core income adjustment on equity in net earnings (losses) of associates and joint ventures, foreign exchange (gains) losses – net, gains (losses) on derivative financial instruments – net excluding hedge cost, asset impairment on noncurrent assets, net of tax effect of aforementioned adjustments and other nonrecurring gains (losses) – net.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
As at and for the year ended December 31, 2009					
Revenues					
External customer:	96,560	41,318	10,115	–	147,993
Service revenues	94,865	41,085	9,697	–	145,647
Non-service revenues (Note 5)	1,695	233	418	–	2,346
Inter-segment transactions:	964	10,055	1,434	(12,453)	–
Service revenues	964	10,055	1,234	(12,253)	–
Non-service revenues	–	–	200	(200)	–
Total revenues	97,524	51,373	11,549	(12,453)	147,993
Results					
Depreciation and amortization (Notes 3 and 9)	13,237	11,619	751	–	25,607
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17, 18, 26 and 28)	2,026	2,901	134	–	5,061
Interest income (Note 5)	1,139	402	28	(30)	1,539
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(68)	(98)	168	–	2
Financing costs – net (Notes 5, 9, 20 and 28)	2,619	3,796	171	(30)	6,556
Provision for (benefit from) income tax (Notes 3 and 7)	12,514	2,258	(28)	–	14,744
Net income for the year / Segment profit for the year	33,727	5,864	504	–	40,095
EBITDA for the year	59,411	25,215	1,330	238	86,194
EBITDA margin for the year	62%	49%	12%	–	59%
Core income for the year	33,026	7,502	613	(3)	41,138
Assets and liabilities					
Operating assets	107,880	206,385	16,297	(80,368)	250,194
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	21,440	–	793	–	22,233
Deferred income tax assets – net (Notes 3, 7 and 28)	187	7,346	188	–	7,721
Total assets	129,507	213,731	17,278	(80,368)	280,148
Operating liabilities	96,194	111,294	4,574	(32,360)	179,702
Deferred income tax liabilities – net (Notes 3, 7 and 28)	640	21	328	332	1,321
Total liabilities	96,834	111,315	4,902	(32,028)	181,023
Other segment information					
Capital expenditures	16,281	11,059	729	–	28,069

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
As at and for the year ended December 31, 2008					
Revenues					
External customer:	95,110	40,736	9,736	–	145,582
Service revenues	93,106	40,316	9,451	–	142,873
Non-service revenues (Note 5)	2,004	420	285	–	2,709
Inter-segment transactions:	487	8,950	1,247	(10,684)	–
Service revenues	487	8,950	966	(10,403)	–
Non-service revenues	–	–	281	(281)	–
Total revenues	95,597	49,686	10,983	(10,684)	145,582
Results					
Depreciation and amortization (Notes 3 and 9)	11,975	11,901	833	–	24,709
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17 and 28)	1,006	888	2,286	–	4,180
Provisions (Notes 3, 26 and 27)	897	1	–	–	898
Interest income (Note 5)	1,197	448	22	1	1,668
Equity share in net earnings (losses) of associates and joint ventures (Note 10)	(119)	(74)	17	–	(176)
Financing costs – net (Notes 5, 9, 20 and 28)	2,029	3,903	172	–	6,104
Provision for (benefit from) income tax (Notes 3 and 7)	16,035	3,257	(99)	–	19,193
Net income (loss) for the year / Segment profit (loss) for the year	29,333	8,220	(2,186)	(69)	35,298
EBITDA for the year	60,712	25,854	1,056	119	87,741
EBITDA margin for the year	65%	52%	10%	–	61%
Core income for the year	30,080	7,925	138	(64)	38,079
Assets and liabilities					
Operating assets	112,162	189,377	15,963	(75,723)	241,779
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	531	–	643	–	1,174
Deferred income tax assets – net (Notes 3, 7 and 28)	251	9,131	223	–	9,605
Total assets	112,944	198,508	16,829	(75,723)	252,558
Operating liabilities	67,656	89,636	4,222	(17,213)	144,301
Deferred income tax liabilities – net (Notes 3, 7 and 28)	911	–	377	–	1,288
Total liabilities	68,567	89,636	4,599	(17,213)	145,589
Other segment information					
Capital expenditures	16,728	7,651	824	–	25,203
As at and for the year ended December 31, 2007					
Revenues					
External customer:	88,121	40,117	9,720	–	137,958
Service revenues	86,067	39,836	9,575	–	135,478
Non-service revenues (Note 5)	2,054	281	145	–	2,480
Inter-segment transactions:	432	8,715	602	(9,749)	–
Service revenues	432	8,715	480	(9,627)	–
Non-service revenues	–	–	122	(122)	–
Total revenues	88,553	48,832	10,322	(9,749)	137,958
Results					
Depreciation and amortization (Notes 3 and 9)	12,202	15,477	934	–	28,613
Asset impairment (Notes 3, 5, 9, 10, 14, 16, 17 and 28)	563	43	711	–	1,317
Provisions (Notes 3, 26 and 27)	–	666	–	–	666
Interest income (Note 5)	1,186	296	21	–	1,503
Equity share in net losses of associates and joint ventures (Note 10)	–	–	(11)	–	(11)
Financing costs – net (Notes 5, 9, 20 and 28)	2,299	4,657	132	–	7,088
Provision for (benefit from) income tax (Notes 3 and 7)	15,001	2,395	(117)	–	17,279
Net income (loss) for the year / Segment profit (loss) for the year	30,730	5,273	(94)	69	35,978
EBITDA for the year	55,514	26,418	1,140	90	83,162
EBITDA margin for the year	64%	54%	11%	–	61%
Core income for the year	28,732	5,708	687	24	35,151

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Consolidated
			(in million pesos)		
Assets and liabilities					
Operating assets	89,984	180,529	17,663	(63,126)	225,050
Investments in associates and joint ventures (Notes 3, 5, 10 and 28)	724	–	627	–	1,351
Deferred income tax assets – net (Notes 3, 7 and 28)	1,640	12,040	77	–	13,757
Total assets	92,348	192,569	18,367	(63,126)	240,158
Operating liabilities	50,573	78,323	5,697	(9,101)	125,492
Deferred income tax liabilities – net (Notes 3, 7 and 28)	1,660	–	495	–	2,155
Total liabilities	52,233	78,323	6,192	(9,101)	127,647
Other segment information					
Capital expenditures	14,259	9,886	679	–	24,824

The following table shows the reconciliation of our consolidated EBITDA to consolidated net income for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
		(in million pesos)	
Consolidated EBITDA	**86,194**	87,741	83,162
Amortization of intangible assets (Notes 3 and 14)	**(368)**	(377)	(390)
Depreciation and amortization (Notes 3 and 9)	**(25,607)**	(24,709)	(28,613)
Asset impairment:			
Goodwill and intangible assets (Notes 3, 5 and 14)	**(379)**	(2,450)	(1,244)
Property, plant and equipment (Notes 3, 5 and 9)	**(634)**	(104)	–
Investments in associates and joint ventures (Notes 3, 5 and 10)	**–**	(282)	–
Reversal of impairment in investment in debt securities (Notes 3 and 5)	**–**	–	616
Prepayments and others (Notes 3, 5, 18 and 26)	**(1,324)**	(23)	(29)
Consolidated operating profit for the year	**57,882**	59,796	53,502
Interest income (Note 5)	**1,539**	1,668	1,503
Foreign exchange gains (losses) – net (Notes 9 and 28)	**909**	(6,170)	2,976
Equity in net earnings (losses) of associates and joint ventures (Note 10)	**2**	(176)	(11)
Gains (losses) on derivative financial instruments – net (Note 28)	**(1,006)**	3,812	(1,044)
Financing costs – net (Notes 5, 9, 20 and 28)	**(6,556)**	(6,104)	(7,088)
Nonrecurring gains – net	**2,069**	1,665	3,419
Consolidated income before income tax	**54,839**	54,491	53,257
Provision for income tax (Notes 3 and 7)	**14,744**	19,193	17,279
Consolidated net income for the year	**40,095**	35,298	35,978

The following table shows the reconciliation of our consolidated core income to our consolidated net income for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
		(in million pesos)	
Consolidated core income for the year	**41,138**	38,079	35,151
Foreign exchange gains (losses) – net (Notes 9 and 28)	**908**	(6,170)	2,976
Core income adjustment on equity share in net earnings of associates and joint ventures	**(517)**	–	–
Gains (losses) on derivative financial instruments – net, excluding hedge cost (Note 28)	**(407)**	4,631	81
Asset impairment on noncurrent assets	**(1,948)**	(2,486)	(657)
Other nonrecurring losses (Notes 3 and 9)	**–**	–	(734)
Net tax effect of aforementioned adjustments	**607**	581	(813)
Net income for the year attributable to equity holders of PLDT (Notes 6 and 8)	**39,781**	34,635	36,004
Net income (loss) for the year attributable to non-controlling interests	**314**	663	(26)
Consolidated net income for the year	**40,095**	35,298	35,978

The following are our revenues from external customer for each products and services for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
		(in million pesos)	
Wireless services			
Service revenues:			
Cellular	**87,829**	87,410	82,319
Wireless broadband, satellite and others	**7,036**	5,696	3,748
	94,865	93,106	86,067
Non-service revenues:			
Sale of cellular handsets, cellular SIM-packs and broadband data modems	**1,695**	2,004	2,054
Total wireless revenues	**96,560**	95,110	88,121
Fixed line services			
Services revenues:			
Local exchange	**15,530**	15,794	16,068
International long distance	**6,250**	7,044	8,661
National long distance	**6,239**	6,143	6,277
Data and other network	**12,585**	10,864	8,470
Miscellaneous	**481**	471	360
	41,085	40,316	39,836
Non-service revenues:			
Sale of computers	**233**	420	281
Total fixed line revenues	**41,318**	40,736	40,117
ICT services			
Service revenues:			
Knowledge processing solutions	**5,215**	5,272	5,261
Customer interaction solutions	**2,676**	2,922	2,962
Internet and online gaming	**1,079**	945	902
Data center and others	**727**	312	450
	9,697	9,451	9,575
Non-service revenues:			
Point-product-sales	**418**	285	145
Total ICT revenues	**10,115**	9,736	9,720
Total products and services from external customers	**147,993**	145,582	137,958

Disclosure of our geographical location on total segment revenues from external customers and total segment assets are not provided since majority of our consolidated revenues are derived from our operations within the Philippines.

We have no revenue from transactions with a single external customer accounting for 10% or more of our consolidated revenues from external customers.

5. Income and Expenses

Non-service Revenues

	2009	2008	2007
		(in million pesos)	
Sale of computers, cellular handsets, cellular SIM-packs and broadband data modems	**1,928**	2,424	2,335
Point-product-sales	**418**	285	145
(Note 4)	**2,346**	2,709	2,480

Compensation and Employee Benefits

	2009	2008	2007
		(in million pesos)	
Salaries and other employee benefits	**19,468**	18,286	16,645
Incentive plans (Notes 3 and 25)	**1,833**	1,281	1,448
Pension benefit costs (Notes 3 and 25)	**1,306**	725	1,773
Manpower rightsizing program, or MRP	**493**	417	604
	23,100	20,709	20,470

Over the past years, PLDT has been implementing its MRP in line with its continuing effort to reduce the cost base of its fixed line business. The total MRP cost charged to operations for the years ended December 31, 2009, 2008 and 2007 amounted to Php493 million, Php417 million and Php604 million, respectively. The decision to implement the MRP was anchored on the challenges faced by the fixed line business as significant changes in technology, increasing competition, and shifting market preferences to cellular use have reshaped the future of the fixed line business. The MRP is being implemented in compliance with the Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

Cost of Sales

	2009	2008	2007
		(in million pesos)	
Cost of computers, cellular handsets, cellular SIM-packs and broadband data modems	**4,690**	4,573	4,713
Cost of point-product-sales	**584**	511	254
Cost of satellite air time and terminal units (Notes 24 and 26)	**158**	168	160
	5,432	5,252	5,127

Asset Impairment

	2009	2008	2007
		(in million pesos)	
Trade and other receivables (Notes 3 and 16)	**2,335**	1,079	417
Property, plant and equipment (Notes 3 and 9)	**634**	104	–
Inventories and supplies (Notes 3 and 17)	**389**	242	243
Goodwill and intangible assets (Notes 3 and 14)	**379**	2,450	1,244
Investments in associates and joint ventures (Notes 3 and 10)	**–**	282	–
Reversal of impairment in investment in debt securities (Note 3)	**–**	–	(616)
Prepayments and others (Notes 3, 18 and 26)	**1,324**	23	29
(Note 4)	**5,061**	4,180	1,317

Interest Income

	2009	2008	2007
		(in million pesos)	
Interest income on other loans and receivables	**1,406**	1,545	1,270
Interest income on fair value through profit or loss	**86**	58	224
Interest income on assets held-to-maturity	**47**	65	9
(Note 4)	**1,539**	1,668	1,503

Financing Costs – net

	2009	2008	2007
		(in million pesos)	
Interest on loans and other related items (Notes 20 and 28)	**6,008**	5,861	6,256
Accretion on financial liabilities – net (Notes 20 and 28)	**1,062**	956	1,161
Financing charges	**177**	61	196
Capitalized interest (Note 9)	**(691)**	(778)	(542)
Dividends on preferred stock subject to mandatory redemption (Note 20)	**–**	4	17
(Note 4)	**6,556**	6,104	7,088

Interest expense for short-term borrowings for the years ended December 31, 2009 and 2008 amounted to Php29 million each, while interest expense for short-term borrowings for the year ended December 31, 2007 amounted to Php32 million.

6. Other Comprehensive Income

The movements of other comprehensive income are as follows:

	Cash flow hedges	**Income tax related to cash flow hedges**	**Cash flow hedges net of tax**	**Foreign currency translation**	**Available-for-sale financial assets**	**Total**
			(in million pesos)			
Balance at January 1, 2007	(2,513)	759	(1,754)	(44)	2	(1,796)
Other comprehensive income for the year	3,872	(1,219)	2,653	(1,782)	30	901
Balance as at December 31, 2007	**1,359**	**(460)**	**899**	**(1,826)**	**32**	**(895)**
Balance at January 1, 2008	1,359	(460)	899	(1,826)	32	(895)
Other comprehensive income for the year	(1,359)	460	(899)	1,425	(9)	517
Balance as at December 31, 2008	**–**	**–**	**–**	**(401)**	**23**	**(378)**
Balance at January 1, 2009	–	–	–	(401)	23	(378)
Other comprehensive income for the year	–	–	–	(642)	3	(639)
Balance as at December 31, 2009	**–**	**–**	**–**	**(1,043)**	**26**	**(1,017)**

7. Income Tax

The net components of consolidated deferred income tax assets (liabilities) recognized in our consolidated statements of financial position.

	2009	2008
	(in million pesos)	
Net deferred income tax assets	**7,721**	9,605
Net deferred income tax liabilities	**(1,321)**	(1,288)

The components of our consolidated net deferred income tax assets (liabilities) are as follows:

	2009	2008
	(in million pesos)	
Net deferred income tax assets:		
Unearned revenues	**3,412**	4,389
Unamortized past service pension costs	**2,974**	959
Accumulated provision for doubtful accounts	**2,708**	3,005
Unrealized foreign exchange losses	**1,291**	2,088
Derivative financial instruments	**825**	540
Provision for impaired assets	**767**	533
Accumulated write-down of inventories to net realizable values	**293**	270
NOLCO	**44**	22
Asset impairment	**24**	–
MCIT	**21**	770
Capitalized taxes and duties – net of amortization	**(246)**	(306)
Capitalized foreign exchange differential – net of depreciation	**(495)**	(627)
Pension and other employee benefits	**(891)**	1,147
Undepreciated capitalized interest charges	**(2,976)**	(3,230)
Others	**(30)**	45
	7,721	9,605
Net deferred income tax liabilities:		
Unearned revenues	**1,047**	898
Pension and other employee benefits	**100**	384
Fair value adjustment on fixed assets	**(332)**	–
Intangible assets and fair value adjustments on assets acquired – net of amortization	**(478)**	(616)
Undepreciated capitalized interest charges	**(536)**	(679)
Unrealized foreign exchange gains	**(879)**	(782)
Asset retirement obligation – net of undepreciated capitalized asset	**–**	329
Accumulated provision for doubtful accounts	**–**	223
Provision for impaired assets	**–**	210
Gain on debt exchange and debt restructuring transactions	**–**	(1,197)
Others	**(243)**	(58)
	(1,321)	(1,288)

Movements of deferred income tax assets (liabilities) are as follows:

	2009	2008
	(in million pesos)	
Net deferred income tax assets – balance at beginning of year	**9,605**	13,757
Net deferred income tax liabilities – balance at beginning of year	**(1,288)**	(2,155)
Net balance at beginning of year	**8,317**	11,602
Business combinations (Note 13)	**(349)**	(1)
Provision for deferred income tax	**(656)**	(2,835)
Excess MCIT deducted against RCIT due	**(766)**	(857)
Movement charged directly to equity	**–**	460
Others	**(146)**	(52)
Net balance at end of year	**6,400**	8,317
Net deferred income tax assets – balance at end of year	**7,721**	9,605
Net deferred income tax liabilities – balance at end of year	**(1,321)**	(1,288)

The analysis of net deferred income tax assets follows:

	2009	2008
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	**9,565**	12,581
Deferred income tax assets to be recovered within 12 months	**3,605**	1,283
	13,170	13,864
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	**(4,793)**	(3,660)
Deferred income tax liabilities to be recovered within 12 months	**(656)**	(599)
	(5,449)	(4,259)
Net deferred income tax assets	**7,721**	9,605

The analysis of net deferred income tax liabilities follows:

	2009	2008
	(in million pesos)	
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	**1,161**	1,147
Deferred income tax assets to be recovered within 12 months	**20**	1,111
	1,181	2,258
Deferred income tax liabilities:		
Deferred income tax liabilities to be recovered after more than 12 months	**(2,289)**	(2,163)
Deferred income tax liabilities to be recovered within 12 months	**(213)**	(1,383)
	(2,502)	(3,546)
Net deferred income tax liabilities	**(1,321)**	(1,288)

Provision for corporate income tax consists of:

	2009	2008	2007
		(in million pesos)	
Current	**14,088**	16,358	10,773
Deferred	**656**	2,835	6,506
	14,744	19,193	17,279

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax is as follows:

	2009	2008	2007
		(in million pesos)	
Provision for income tax at the applicable statutory tax rates	**16,452**	19,072	18,640
Tax effects of:			
Net movement in unrecognized deferred income tax assets	**3,979**	(576)	823
Non-deductible expenses	**201**	724	333
Equity share in net losses (earnings) of associates and joint ventures	**(1)**	62	3
Loss (income) subject to lower tax rate	**(443)**	1,425	(1,591)
Income subject to final tax	**(502)**	(616)	(509)
Income not subject to income tax	**(1,483)**	(846)	(420)
Difference between OSD and itemized deductions	**(3,310)**	–	–
Others	**(149)**	(52)	–
Actual provision for corporate income tax	**14,744**	19,193	17,279

The RCIT rate for domestic corporations and resident/non-resident foreign corporations in the Philippines increased from 32% to 35% effective November 1, 2005 and was reduced to 30% effective January 1, 2009.

On December 18, 2008, the Bureau of Internal Revenue, or BIR, issued Revenue Regulation No. 16-2008 which implemented the provisions of Republic Act 9504, or R.A. 9504 on OSD. This regulation allowed both individual and corporate taxpayers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

In our 2008 consolidated financial statements, Smart and Piltel computed their income tax liability using the itemized deduction method based on conditions existing at that time of issuance of our consolidated financial statements. We made a continuous review of our income tax computation as interpretations of the OSD provisions became more definitive. When the 2008 income tax computation of Smart and Piltel using OSD method was completed in April 2009, we decided that Smart and Piltel should elect to use OSD on their filing of 2008 income tax return in April 2009. This change in estimate, which resulted in the reduction of our provision for income tax of Php1,033 million, was recognized in our consolidated income statement for the year ended December 31, 2009. Based on our review of projected gross margin and recognition and measurement of several deferred income tax assets and liabilities of Smart and Piltel, we assessed that a portion of previously recognized deferred income tax assets and deferred income tax liabilities would not result to any future tax consequence under the OSD method. Consequently, any deferred income tax assets and liabilities affected by the availment of the OSD were derecognized in our consolidated statement of financial position in 2009. The deferred income tax assets and liabilities as at December 31, 2009, which were not recognized because it will not have tax consequence under the OSD method, amounted to Php4,280 million and Php984 million, respectively.

For the year ended December 31, 2009, Smart, Piltel, Wolfpac and SHI opted to use OSD in computing their taxable income.

The breakdown of our deductible temporary differences, carry forward benefit of unused tax credits from excess of MCIT over RCIT, and NOLCO (excluding those not recognized due to the adoption of OSD) for which no deferred income tax assets were recognized and the equivalent amount of unrecognized deferred income tax assets as at December 31, 2009 and 2008 are as follows:

	2009	2008
	(in million pesos)	
NOLCO	**2,341**	916
Accumulated provision for doubtful accounts	**894**	419
Accumulated write-down of inventories to net realizable values	**261**	112
Unearned revenues	**188**	61
Provisions for other assets	**163**	6
Fixed asset impairment	**111**	239
Unrealized foreign exchange losses	**33**	60
Pension	**44**	–
MCIT	**19**	1
Financial instruments	**19**	–
Operating lease	**3**	–
	4,076	1,814
Consolidated unrecognized deferred income tax assets (Note 3)	**1,236**	545

Our consolidated deferred income tax assets have been recorded to the extent that such consolidated deferred income tax assets are expected to be utilized against sufficient future taxable profit. Deferred income tax assets related to the preceding table were not recognized as we believe that future taxable profit will not be sufficient to realize these deductible temporary differences and carry forward benefits of unused tax credits from excess of MCIT over RCIT, and NOLCO in the future.

The breakdown of our consolidated excess MCIT and NOLCO as at December 31, 2009 is as follows:

Year Incurred	Expiry Date	MCIT	NOLCO
		(in million pesos)	
December 31, 2007	December 31, 2010	2	652
December 31, 2008	December 31, 2011	11	639
December 31, 2009	December 31, 2012	27	1,196
		40	2,487
Consolidated tax benefits		40	746
Consolidated unrecognized deferred income tax assets		(19)	(702)
Consolidated recognized deferred income tax assets		21	44

The excess MCIT totaling Php40 million can be deducted against future RCIT due. The excess MCIT that was deducted against RCIT due for the years ended December 31, 2009, 2008 and 2007 amounted to Php766 million, Php857 million and Php8 million, respectively. The amount of expired portion of excess MCIT for the year ended December 31, 2009 amounted to Php3 million and Php2 million each for the years ended December 31, 2008 and 2007.

NOLCO totaling Php2,487 million as at December 31, 2009 can be claimed as deduction against future taxable income. The NOLCO that was claimed as deduction against taxable income for the years ended December 31, 2009, 2008 and 2007 amounted to Php56 million, Php17,710 million and Php1,277 million, respectively. The amount of expired portion of NOLCO for the years ended December 31, 2009, 2008 and 2007 amounted to Php462 million, Php140 million and Php164 million, respectively.

Registration with Subic Bay Freeport and Clark Special Economic Zone

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises, while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

Registration with Philippine Economic Zone Authority, or PEZA

Vocativ and SPi are registered with PEZA. Vocativ is registered as an ecozone export enterprise to develop and operate a customer interaction solutions that serves overseas clients by providing customer relationship management services. On the other hand, SPi is registered as an ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions. As registered PEZA enterprises, Vocativ and SPi are entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the Treasurer's Office of the Municipality or City where the enterprise is located.

SHI was registered with the PEZA as an Ecozone information technology enterprise on a non-pioneer status last July 31, 2009. Under the terms of registration, SHI is entitled to certain tax and non-tax incentives which include, among other things, an income tax holiday, or ITH, for four years starting June 2009.

Registration with the Board of Investments, or BOI

On January 3, 2007, the BOI approved ePLDT's application for pioneer status for its new data center facility as a new IT service firm in the field of services related to Internet Data Center. ePLDT was granted a six-year ITH for its new data center facility from the earlier of January 2007 and the actual start of commercial operations. ePLDT started commercial operations of its new data center facility in February 2007.

Parlance is registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under this registration, Parlance is entitled to certain tax and non-tax incentives, including an ITH for six years starting in June 2002. Parlance is required to comply with the specific terms and conditions stated in its BOI registration. In 2008, Parlance secured a one year ITH extension for the period from June 1, 2008 to May 31, 2009. On June 17, 2009, BOI granted another year of ITH extension for the period from June 1, 2009 to May 31, 2010.

The two customer interaction projects of Ventus are registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under their respective registration, these projects are entitled to certain tax incentives, such as ITH for six years starting March 2005 and August 2006 for Ventus Iloilo and Ventus Pasig customer interaction projects, respectively. In relation to this, they are required to comply with specific terms and conditions stated in their BOI registration.

Level Up! was originally registered with the BOI as a new IT service firm in the field of application service provider on a non-pioneer status. Under such registration, Level Up! is entitled to certain tax incentives, which includes a four-year ITH from January 2003 and a tax credit for taxes on duties on materials used in export products for ten years starting January 2003. In April 2004, the BOI approved Level Up!'s request for upgrading its status from non-pioneer to pioneer in connection with its IT service activity in the field of application service provider for entertainment and education project. Accordingly, the ITH period was extended from four years to six years and expired on January 2009. Level Up! is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

Wolfpac is registered with the BOI as a new IT service firm in the field of an application service provider on a non-pioneer status. Under the terms of its registration, it is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting February 2004. On November 29, 2007, the BOI approved Wolfpac's application for a one year extension of ITH incentive on the basis that the capital equipment to labor ratio did not exceed US$10 thousand to one direct labor employee, as provided under Article 39 of Executive Order 226. The approved additional ITH is for the period from February 13, 2008 to February 12, 2009. Wolfpac is now subject to 30% RCIT on taxable income or 2% MCIT on total gross income, whichever is higher.

SBI is registered with the BOI on a pioneer status, namely: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of registration, SBI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years. As at December 31, 2009, only the BOI registration for nationwide broadband wireless access continues to enjoy the ITH incentive which will expire in July 2011.

Consolidated income derived from non-registered activities with Economic Zone and BOI is subject to the RCIT rate enacted as at the end of the reporting period.

Consolidated tax incentives that were availed from registration with Economic Zone and BOI for the years ended December 31, 2009, 2008 and 2007 amounted to Php1,241 million, Php1,763 million and Php766 million, respectively.

8. Earnings Per Common Share

The following table presents information necessary to calculate the earnings per common share, or EPS:

	2009		2008		2007	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income for the year attributable to equity holders of PLDT (Note 4)	**39,781**	**39,781**	34,635	34,635	36,004	36,004
Dividends on preferred shares (Note 19)	**(457)**	**(457)**	(455)	(455)	(457)	(457)
Accretion of preferred stock subject to mandatory redemption	**–**	**–**	–	–	–	131
Dividends on dilutive preferred stock subject to mandatory redemption charged to interest expense for the year	**–**	**–**	–	–	–	17
Foreign exchange gains on preferred stock subject to mandatory redemption (Notes 20 and 26)	**–**	**–**	–	–	–	(182)
Consolidated net income for the year attributable to common equity holders of PLDT	**39,324**	**39,324**	34,180	34,180	35,547	35,513

	2009		2008		2007	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
	(in thousands, except per share amounts)					
Outstanding common shares at beginning of year	**187,484**	**187,484**	188,741	188,741	188,435	188,435
Effect of issuance of common shares during the year	**15**	**15**	542	542	221	221
Effect of purchase of treasury stock during the year	**(583)**	**(583)**	(1,120)	(1,120)	–	–
Average incremental number of shares under ESOP during the year	**–**	**21**	–	13	–	38
Common shares equivalent of convertible preferred shares deemed dilutive:						
Preferred Stock Series VI (Notes 20 and 26)	**–**	**–**	–	–	–	680
Weighted average number of common shares for the year	**186,916**	**186,937**	188,163	188,176	188,656	189,374
Earnings per share for the year attributable to common equity holders of PLDT	**Php210.38**	**Php210.36**	Php181.65	Php181.64	Php188.42	Php187.53

Basic EPS is calculated by dividing our consolidated net income for the year attributable to common equity holders of PLDT (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related income and expenses on preferred shares. Outstanding stock options will have a dilutive effect only when the average market price of the underlying common share during the year exceeds the exercise price of the stock option.

When required dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, decreases the basic EPS, then such convertible preferred shares are deemed dilutive. As such, the diluted EPS is calculated by dividing our consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized for the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares excluding the weighted average number of common shares held as treasury shares, and including the common share equivalent arising from the conversion of the dilutive convertible preferred shares.

Series VI Convertible Preferred Stocks in 2007 were deemed dilutive based on a calculation of the required dividends on these preferred shares divided by the number of equivalent common shares assuming such preferred shares are converted into common shares, including the effect of shares under the ESOP and treasury shares, and compared against the basic EPS. Since the amount of dividends on the Series A to EE in 2009; Series A to EE, Series V Convertible Preferred Stock and Series VI Convertible Preferred Stock in 2008; and Series A to EE and Series V Convertible Preferred Stock in 2007 over its equivalent number of common shares increased the basic EPS, these Convertible Preferred Stock were deemed anti-dilutive.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at December 31, 2009 and 2008, we had acquired a total of 2.7 million shares and 2.0 million shares, respectively, representing approximately 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,387 per share and Php2,521 per share, respectively, for a total consideration of Php6,405 million and Php4,973 million, respectively, in accordance with the share buyback program. 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, 2009 and 2008. See *Note 19 – Equity* and *Note 28 – Financial Assets and Liabilities* for further discussion.

9. Property, Plant and Equipment

This account consists of:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings	Vehicles, furniture and other network equipment	Communi-cations satellite	Information origination and termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)					
As at December 31, 2007										
Cost	117,081	86,841	70,045	20,695	32,572	8,454	8,191	2,561	18,532	364,972
Accumulated depreciation and amortization	(54,023)	(64,286)	(38,175)	(7,323)	(27,723)	(7,349)	(6,407)	(272)	–	(205,558)
Net book value	63,058	22,555	31,870	13,372	4,849	1,105	1,784	2,289	18,532	159,414
Year Ended December 31, 2008										
Net book value at beginning of year	63,058	22,555	31,870	13,372	4,849	1,105	1,784	2,289	18,532	159,414
Additions	1,423	262	4,344	649	2,238	–	195	25	16,522	25,658
Disposals/Retirements	(52)	(58)	(108)	(104)	(77)	–	–	(59)	(32)	(490)
Translation differences charged directly to cumulative translation adjustments	–	280	–	(274)	118	338	–	–	–	462
Acquisition through business combination (Note 13)	22	–	50	14	29	–	–	–	–	115
Impairment losses recognized during the year (Notes 3, 4 and 5)	–	(19)	–	–	(85)	–	–	–	–	(104)
Reclassifications/Transfers	2,197	1,769	4,198	294	1,203	–	107	–	(9,788)	(20)
Depreciation and amortization (Notes 3 and 4)	(9,048)	(3,871)	(7,544)	(1,084)	(2,201)	(537)	(423)	(1)	–	(24,709)
Net book value at end of year (Note 3)	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
As at December 31, 2008										
Cost	115,980	83,562	76,229	21,040	34,816	9,581	8,251	2,527	25,234	377,220
Accumulated depreciation and amortization	(58,380)	(62,644)	(43,419)	(8,173)	(28,742)	(8,675)	(6,588)	(273)	–	(216,894)
Net book value (Note 3)	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
Year Ended December 31, 2009										
Net book value at beginning of year (Note 3)	57,600	20,918	32,810	12,867	6,074	906	1,663	2,254	25,234	160,326
Additions	1,834	513	4,040	316	1,970	149	225	67	19,091	28,205
Disposals/Retirements	(530)	(6)	(843)	(6)	(107)	(463)	(3)	(5)	(1,228)	(3,191)
Translation differences charged directly to cumulative translation adjustments	3	(2)	–	(10)	(13)	(47)	–	–	–	(69)
Acquisition through business combination (Note 13)	1,348	194	141	186	104	–	420	105	(10)	2,488
Impairment losses recognized during the year (Notes 3, 4 and 5)	–	–	(96)	(54)	(17)	–	(418)	(49)	–	(634)
Reclassifications/Transfers (Note 12)	6,949	2,776	8,404	326	386	–	110	(184)	(19,029)	(262)
Depreciation and amortization (Notes 3 and 4)	(8,793)	(3,381)	(9,013)	(1,151)	(2,176)	(545)	(542)	(6)	–	(25,607)
Net book value at end of year (Note 3)	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256
As at December 31, 2009										
Cost	126,327	87,517	83,451	21,693	35,282	966	8,940	2,458	24,058	390,692
Accumulated depreciation and amortization	(67,916)	(66,505)	(48,008)	(9,219)	(29,061)	(966)	(7,485)	(276)	–	(229,436)
Net book value (Note 3)	58,411	21,012	35,443	12,474	6,221	–	1,455	2,182	24,058	161,256

Substantially, all our telecommunications equipment are purchased from outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars. See *Note 20 – Interest-bearing Financial Liabilities*.

Interest and net foreign exchange losses capitalized to property, plant and equipment that qualified as borrowing costs for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
		(in million pesos)	
Interest (Note 5)	**691**	778	542
Foreign exchange losses (gains) – net	**(119)**	385	63

Interest average capitalization rates of 6%, 8% and 10% were used for the years ended December 31, 2009, 2008 and 2007, respectively.

As at December 31, 2009, 2008 and 2007, our undepreciated capitalized net foreign exchange losses which qualified as borrowing costs amounted to Php1,799 million, Php2,445 million and Php2,533 million, respectively.

The consolidated useful lives of our assets are estimated as follows:

Cable and wire facilities	10 – 15 years
Central office equipment	10 – 20 years
Cellular facilities	3 – 10 years
Buildings	25 years
Vehicles, furniture and other network equipment	3 – 5 years
Communications satellite	15 years
Information origination and termination equipment	3 – 15 years
Land and land improvements	10 years

SBI recognized additional depreciation and amortization charge of Php830 million for the year ended December 31, 2009 due to a decrease in the estimated useful lives of certain customer premise equipment included in the telecommunications equipment account as a result of decreased expected economic benefits from such equipment. The effect of the change in estimate to future periods is expected to be an increase in monthly depreciation charge amounting to Php6 million in 2010 and a decrease in monthly depreciation charge amounting to Php35 million in 2011. See *Note 3 – Management's Use of Judgements, Estimates and Assumptions.*

Property, plant and equipment include the net carrying value of capitalized vehicles, furniture and other network equipment under financing leases amounting to Php24 million and Php51 million as at December 31, 2009 and 2008, respectively. See *Note 20 – Interest-bearing Financial Liabilities*.

SBI's Acquisition of Cluster 3 Assets from Cruz Telephone Company, Inc., or Cruztelco

On February 7, 2008, SBI completed the acquisition of the Cluster 3 Local Exchange Carrier, or LEC, assets of Cruztelco, a local exchange operator offering fixed line services in key parts of Visayas, Mindanao and some parts of Luzon. The Cluster 3 LEC assets are located in Mindanao, specifically in the provinces of Surigao del Norte, Agusan del Norte, Agusan del Sur, Davao del Norte and Misamis Oriental. SBI and Cruztelco signed a Conditional Sale Agreement, or CSA, on September 6, 2007 whereby Cruztelco agreed to sell to SBI its Cluster 3 LEC assets at a price of Php371 million. The sale was approved by the NTC on January 21, 2008.

As defined in the CSA, the acquisition price of the Cluster 3 assets was allocated to equipment, land and buildings and improvements in the amounts of Php318 million, Php31 million and Php22 million, respectively.

On February 26, 2008, the Deed of Sale over land and buildings located in Cagayan De Oro City amounting to Php6 million and Php3 million, respectively, were rescinded as mutually agreed upon by SBI and Cruztelco. The allocation of the acquisition price of the Cluster 3 assets has been adjusted to reflect the rescission agreement.

Wholesale Transponder Lease Agreement between Mabuhay Satellite, ProtoStar Ltd., or ProtoStar, and ProtoStar III Ltd., or ProtoStar III

On September 16, 2008, Mabuhay Satellite entered into a wholesale transponder lease agreement with ProtoStar and ProtoStar III subject to fulfillment of certain closing conditions. In May 2009, Mabuhay Satellite formalized the consequential termination of wholesale transponder lease agreement due to non-fulfillment of certain closing conditions. See *Note 18 – Prepayments* and *Note 26 – Contractual Obligations and Commercial Commitments*.

Satellite Wholesale Lease and Purchase Agreement, or SWLPA, and Operations Management Agreement, or OMA, between Mabuhay Satellite and Asia Broadcast Satellite Holdings, Ltd.

On October 22, 2009, Mabuhay Satellite entered into SWLPA and OMA with Asia Broadcast Satellite Holdings, Ltd., or ABS, a Bermuda company engaged in the satellite business, involving the wholesale lease by ABS of the Agila 2 satellite from Mabuhay Satellite and, upon the satisfaction of various conditions precedent, the purchase by ABS of the business of Mabuhay Satellite.

Under the SWLPA, Mabuhay Satellite, in exchange for a total consideration of US$12.5 million, or Php580 million, will: (i) lease to ABS the Agila 2 satellite; (ii) assign the customer contracts to ABS; and (iii) transfer to ABS the Mabuhay Satellite's ground control facilities, employees, leasehold rights, other assets and the Agila 2 satellite. The term of the lease is for a period starting from the effective date of SWLPA to the earlier of: (a) the end of life of Agila 2 satellite; or (b) the date when Mabuhay Satellite assigns, transfers and conveys to ABS all of its rights, title and interest in the Agila 2 satellite. As part of the wholesale lease, Mabuhay Satellite shall assign to ABS all its rights, title, interest, benefits and obligations in the customer contracts attached to all transponders that are covered by the SWLPA.

Under the OMA, after the closing of the agreement but prior to the transfer and conveyance of the ground control facilities to ABS pending the receipt of International Traffic in Arms Regulations approval, the parties agree that Mabuhay Satellite shall operate and manage the Agila 2 satellite, the transponders and the ground control facilities for and on behalf of ABS. Mabuhay Satellite shall provide the operations and management services for and in consideration of: (a) one-time payment by ABS to Mabuhay Satellite of the amount of US$500 thousand, or Php23 million; and (b) the reimbursement by ABS to Mabuhay Satellite of the amount equivalent to the actual expenses, costs, losses and liabilities incurred by Mabuhay Satellite in providing the services.

As at December 31, 2009, all significant closing conditions have been secured. On January 18, 2010, Mabuhay Satellite, ABS and Asia Broadcast Satellite, Ltd., formally executed a Conditions Precedent Waiver and First Closing Confirmation, confirming that the First Closing has deemed to have occurred effective December 31, 2009. First Closing means the date when the assignment of customer contracts to ABS becomes effective and the approval or confirmation of SWLPA by stockholders of Mabuhay Satellite representing at least 2/3 of its outstanding capital stock has been obtained. Following the confirmation of First Closing, the wholesale lease of transponders by Mabuhay Satellite to ABS was considered as a finance lease and the transaction was recognized as sale of satellite for a total consideration of US$9.9 million, or Php460 million, including the cost of customer contracts as at December 31, 2009.

Impairment of BOW's Property and Equipment

In December 2009, impairment losses were recognized on BOW's property and equipment in the amount of Php524 million. The impairment losses resulted from the annual impairment test done on the assets, comparing recoverable amount against the carrying value of the assets. The recoverable amount was determined based on value in use calculation using cash flow projections covering a five-year period from 2010 to 2014. The pre-tax discount rate applied to cash flow projections is 8.7% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry. See *Note 14 – Goodwill and Intangible Assets*.

10. Investments in Associates and Joint Ventures

This account consists of:

	2009	2008
	(in million pesos)	
Carrying Value of Investments in Associates:		
Manila Electric Company, or Meralco	**21,420**	–
Philweb Corporation, or Philweb	**750**	598
BOW	**–**	605
ACeS International Limited	**–**	–
	22,170	1,203
Carrying Value of Investments in Joint Ventures:		
ePDS, Inc., or ePDS	**43**	45
PLDT Italy S.r.l., or PLDT Italy	**20**	(74)
Mabuhay Space Holdings Limited, or MSHL	**–**	–
	63	(29)
Total carrying value of investments in associates and joint ventures	**22,233**	1,174

Movements in the cost of investments are as follows:

	2009	2008
	(in million pesos)	
Balance at beginning of year	**4,346**	4,226
Additions during the year	**21,555**	1
Translation adjustments	**(23)**	119
Business combinations (Note 13)	**(821)**	–
Dissolution of MSHL	**(887)**	–
Balance at end of year	**24,170**	4,346

Movements in the accumulated impairment losses are as follows:

	2009	2008
	(in million pesos)	
Balance at beginning of year	**2,903**	2,782
Translation adjustments	**(13)**	(161)
Business combinations (Note 13)	**(97)**	–
Dissolution of MSHL	**(887)**	–
Impairment for the year (Notes 3, 4 and 5)	**–**	282
Balance at end of year	**1,906**	2,903

Movements in the accumulated equity share in net earnings (losses) of associates and joint ventures are as follows:

	2009	2008
	(in million pesos)	
Balance at beginning of year	**(269)**	(93)
Dividends	**(357)**	–
Equity share in net earnings (losses) of associates and joint ventures for the year (Note 4):	**2**	(176)
Meralco	**398**	–
Philweb	**152**	5
ePDS	**21**	12
BayanTrade	**(5)**	–
PLDT Italy	**(98)**	(74)
BOW	**(466)**	(119)
Translation adjustments	**3**	–
Business combinations (Note 13)	**590**	–
Balance at end of year	**(31)**	(269)

Investments in Associates

Piltel's Acquisition of Shares in Meralco

Meralco is the largest electric power distribution company and the largest private sector utility in the Philippines. It is incorporated in the Philippines and is subject to the rate-making regulations and regulatory policies of the Philippine Energy Regulatory Commission. Its subsidiaries are mainly engaged in engineering, construction and consulting services, information systems and technology, real estate, insurance and other electricity-related services.

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., (collectively, the Lopez Group) and PLDT entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel 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 Php20.07 billion, or Php90 per share; and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, Piltel and FPUC also entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into approximately 22.2 million shares of common stock of Meralco, which form part of the 223 million shares or approximately 20% of Meralco's voting common shares to be acquired by Piltel in this transaction. The exchange option was exercisable simultaneously with the acquisition of such shares by Piltel. Piltel recognized a derivative asset of Php563 million on April 20, 2009, for the exchange option feature of the agreement. The residual amount of Php1,437 million was allocated as the value of the host contract of the exchangeable note. The derivative asset is subsequently carried at fair value through profit or loss while the host contract is carried at amortized cost using effective interest rate.

In the Annual Stockholder's Meeting of Piltel held on June 30, 2009, its stockholders approved the acquisition by Piltel of 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion for the approximately 200.8 million shares and exercised the exchange option of the exchangeable note issued by FPUC, completing the acquisition of 223 million shares in Meralco. The market value of the exchange note, including the derivative option, was determined to be at Php3,286 million as at July 14, 2009, thus the investment in 223 million shares in Meralco is initially recorded at Php21,356 million. The total gain recognized from the exchangeable note amounted to Php1,286 million 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. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

Piltel engaged the services of an independent appraiser to determine the fair value of Meralco's specific identifiable assets and liabilities and allocate the purchase price of Piltel's investment in Meralco among the identified assets and liabilities based on fair value. Based on the final purchase price allocation, the difference of Php8,377 million between Piltel's share on the total fair value of Meralco's specific identifiable assets and liabilities and the total cost of Piltel's investments was allocated as follows: (a) Php1,517 million for utility, plant and others; (b) Php320 million for investment properties; (c) Php36 million for investments in associates and joint ventures; (d) Php1,286 million for intangible assets particularly for franchise; (e) Php137 million for contingent liability; (f) Php1,295 million for deferred income tax liability; and (g) Php6,650 million for goodwill.

As at December 31, 2009, the carrying value of investment in Meralco amounted to Php21,420 million, which includes the share in net earnings of Meralco of Php498 million, amortization of intangible assets of Php41 million, depreciation of fair value adjustment on utility, plant and others of Php59 million and dividends received of Php334 million. As at December 31, 2009, the market value of Piltel's investment in Meralco, based on quoted price of Php205 per share, amounted to Php45,715 million.

Investment of ePLDT in Philweb

In May 2006, ePLDT subscribed to newly issued common shares of Philweb, an internet-based online gaming company, equivalent to 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share or an aggregate amount of Php503 million. Of the total subscription price, Php428 million was paid by ePLDT on the closing date. A portion of the unpaid subscription price amounting to Php25 million will be paid by ePLDT at the same time as the Philweb majority stockholders pay the remaining unpaid portion of the subscription pursuant to a general call on subscription to be made by Philweb's Board of Directors. The remaining unpaid balance of Php50 million will be paid upon the lapse of certain post-closing price adjustment periods. The total unpaid subscription price of Php75 million was recorded as part of "Others" in the "Accrued expenses and other current liabilities" in our consolidated statement of financial position. See *Note 23 – Accrued Expenses and Other Current Liabilities*.

In October 2006, ePLDT acquired an additional 8,038 million shares of Philweb at a price of Php0.026 per share or an aggregate amount of Php209 million. This represents an additional 6.2% of the outstanding shares of Philweb, raising ePLDT's total equity stake to 26.87%. As at December 31, 2009, ePLDT's equity interest in Philweb is 26.4%.

Philweb is primarily engaged in internet-based online gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. As at December 31, 2009, Philweb offers Internet Sports Betting in over 180 PAGCOR Internet Sports Betting Stations and over 150 Internet Casino Stations nationwide. As at December 31, 2009 and 2008, the market value of ePLDT's investment in Philweb, based on quoted share price, amounted to Php6,134 million and Php928 million, respectively.

Investment of Smart in BOW

As at December 31, 2008, Smart (through its subsidiary, SCH) had shareholdings of 381 thousand shares representing 28.3% of the total issued and outstanding shares of BOW, a Dublin-based company delivering GSM communication capability for the merchant maritime sector. The total acquisition cost for Smart's investment in BOW amounted to US$16 million, or Php724 million, of which US$13 million, or Php601 million, was paid in cash in August 2007 and US$3 million, or Php123 million, worth of equipment and services was delivered by Smart in accordance with the subscription agreement and was accepted by BOW in March 2008.

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 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 exchanged for receivables from BOW. Effective July 2009, BOW financials were included in the consolidation of Smart Group. See *Note 2 – Summary of Significant Accounting Policies* and *Note 13 – Business Combinations and Acquisition of Non-Controlling Interests*.

BOW provides GSM network at sea through Altobridge, a patented GSM technology that will complement Smart's prepaid wireless satellite phone service, *SmartLink*.

Investment of ACeS Philippines in AIL

As at December 31, 2009, ACeS Philippines had a 36.99% investment in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raised substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision of Php1,896 million in respect of our investment in AIL in 2003.

Unrecognized share in net earnings of AIL amounted to Php29 million and Php27 million for the years ended December 31, 2009 and 2008, respectively, while unrecognized share in net losses amounted to Php104 million for the year ended December 31, 2007. Share in net cumulative losses amounting to Php10,271 million and Php10,569 million as at December 31, 2009 and 2008, respectively, were not recognized as we do not have any legal or constructive obligation for such losses and have not made any payments on behalf of AIL.

See *Note 24 – Related Party Transactions* and *Note 26 – Contractual Obligations and Commercial Commitments* for further details as to the contractual relationships with respect to AIL.

Summarized Financial Information of Equity Investees

The following tables present the summarized financial information of our investments in associates in conformity with PFRS for equity investees for which we have significant influence as at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007.

	2009	2008
	(in million pesos)	
Consolidated Statements of Financial Position:		
Noncurrent assets	**136,581**	1,072
Current assets	**46,755**	1,017
Equity (Capital deficiency)	**52,143**	(9,119)
Noncurrent liabilities	**86,605**	10,468
Current liabilities	**44,588**	740

	2009	2008	2007
		(in million pesos)	
Consolidated Income Statements:			
Revenues	**186,227**	572	763
Expenses	**180,536**	359	341
Net income attributable to controlling interests	**6,634**	290	489

The above information as at and for the year ended December 31, 2009 includes the financial information of Meralco as shown below:

	(in million pesos)
Consolidated Statement of Financial Position:	
Noncurrent assets	135,071
Current assets	45,342
Equity	60,878
Noncurrent liabilities	76,516
Current liabilities	43,019
Consolidated Income Statement:	
Revenues	184,872
Expenses	176,445
Net income attributable to controlling interests	6,005

Investments in Joint Ventures

Investment of ePLDT in ePDS

ePLDT entered into a joint venture agreement on June 27, 2003 with DataPost Pte. Ltd., or DataPost, a subsidiary of Singapore Post, or Spring, and G3 Worldwide ASPAC pursuant to which the parties formed ePDS, a bills printing company that performs laser printing and enveloping services for statements, bills and invoices, and other value-added services for companies in the Philippines. ePLDT has a 50% equity interest in ePDS, while DataPost has a 30% equity interest. Spring, the largest international mail services provider, owns the remaining 20% equity interest. ePDS has an initial paid-up capital of Php11 million.

Investment of PLDT Global in PLDT Italy

PLDT Global holds 100% nominal interest in PLDT Italy, a company incorporated under the laws of Italy, which is intended to carry the joint venture business between PLDT Global and Hutchison Global Communications Limited, or HGC, a company based in Hong Kong. On March 12, 2008, PLDT Global, HGC and PLDT Italy entered into a Co-operation Agreement wherein the parties agreed to launch their first commercial venture in Italy by offering mobile telecommunications services through PLDT Italy. Under the terms of the agreement, the aggregate amount of funding to be contributed by PLDT Global and HGC to PLDT Italy, in equal proportions, is capped at €7.0 million. PLDT Global and HGC agreed to share equally the profit and loss from the operations of PLDT Italy. As a condition precedent to the effectivity of the Co-Operation Agreement, PLDT Global pledged 50% of its shareholding in PLDT Italy to HGC.

In 2009, PLDT Global and HGC's advances to PLDT Italy of €2.99 million and €3.0 million, respectively, were converted into deposit for future subscription on shares of PLDT Italy.

As at December 31, 2009 and 2008, PLDT Global's equity in the joint venture amounted to €3 million, or Php199.7 million and €0.01 million, or Php0.7 million, respectively.

Investment of Mabuhay Satellite in MSHL

In 1996, Mabuhay Satellite entered into a Joint Venture Agreement, or JVA, with Space Systems/Loral, Inc., or SS/L, to form MSHL for the purpose of providing high-power Ku-Band satellite transmission services using the payload which was added by SS/L to the Agila 2 satellite. Under the terms of the JVA, SS/L is required to convey title to the additional payload service to MSHL in consideration for SS/L's 35% equity interest in MSHL, and Mabuhay Satellite is required to pay SS/L an amount of US$19 million for a 65% equity interest in MSHL.

In 2000, SS/L filed a Notice of Default and Termination against Mabuhay Satellite arising from the latter's alleged failure to amicably resolve its unpaid obligation to SS/L under the JVA. In 2002, the arbitration panel handed down its decision and provided for payment by Mabuhay Satellite to SS/L of the principal amount of US$10 million plus accrued interest at 9% per annum. On June 30, 2003, Mabuhay Satellite and SS/L concluded a US$15 million settlement agreement under which Mabuhay Satellite leased two transponders under a transponder agreement on a life-term basis to SS/L and offset the lease charges due from SS/L and its receivables from Loral Skynet Network Services, Inc. (formerly known as the Loral Cyberstar, Inc.), among other things, for a full and final settlement of the arbitration decision. The agreement was subsequently approved by Mabuhay Satellite's creditors in March 2004.

In accordance with the settlement agreement, in the event of liquidation, Mabuhay Satellite and SS/L are required to proceed to dissolve the joint venture under a separate agreement, for which each of the parties will receive title over a number of transponders owned by the joint venture in proportion to their respective interests. On the basis of the joint venture dissolution, we recognized full impairment provision in respect of our investment in MSHL in 2004. In 2009, Mabuhay Satellite and SS/L elected to voluntary dissolve the joint venture and wound up its affairs. Mabuhay Satellite recognized gain of Php148 million in the dissolution of MSHL in 2009.

Summarized Financial Information of Joint Ventures

The following table presents the summarized financial information of our investments in joint ventures as at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007.

	2009	2008
	(in million pesos)	
Consolidated Statements of Financial Position:		
Noncurrent assets	**103**	556
Current assets	**244**	261
Equity (Capital deficiency)	**57**	(71)
Noncurrent liabilities	**88**	699
Current liabilities	**202**	189

	2009	2008	2007
		(in million pesos)	
Consolidated Income Statements:			
Revenues	**387**	175	100
Expenses	**527**	387	173
Net loss attributable to controlling interests	**154**	223	83

As at December 31, 2009, we have no outstanding capital commitments with our joint ventures.

11. Investment in Debt Securities

This account consists of:

	2009	2008
	(in million pesos)	
National Power Corporation, or NAPOCOR, Zero Coupon Bonds	**312**	292
Rizal Commercial Banking Corporation, or RCBC, Note	**150**	150
Government Securities	**–**	1,656
Republic of the Philippines Credit Linked Notes, or CLN	**–**	193
	462	2,291
Less current portion of investment in debt securities (Note 28)	**–**	1,656
Noncurrent portion of investment in debt securities (Note 28)	**462**	635

NAPOCOR Zero Coupon Bonds

In 2007, Smart purchased, at a discount, a NAPOCOR Zero Coupon Bond (NAPOCOR Bond) with a face value of Php380 million, maturing on November 29, 2012 at a net yield to maturity of 6.875%. The NAPOCOR Bond, which is classified as a financial asset held-to-maturity, is carried at amortized cost using the effective interest rate method. Interest income recognized on the NAPOCOR Bond amounted to Php20 million and Php19 million for the years ended December 31, 2009 and 2008, respectively.

RCBC Note

In 2008, Smart purchased at par a ten-year RCBC Tier 2 Note, or RCBC Note, with a face value of Php150 million bearing a fixed rate of 7.00% for the first five years and the step-up interest rate from the fifth year up to maturity date. The RCBC Note may be redeemed at the option of the Issuer at par plus accrued and unpaid interest on February 22, 2013. Smart designated the RCBC Note as held-to-maturity financial asset. Interest income recognized for the years ended December 31, 2009 and 2008 amounted to Php8 million and Php7 million, respectively.

Government Securities

As at December 31, 2009, all investments in treasury bills, or T-bills, and zero coupon bonds have matured and were redeemed at par. Government securities, which are classified as held-to-maturity, are carried at amortized cost using the effective interest rate method. Interest income recognized for the years ended December 31, 2009 and 2008 amounted to Php30 million and Php35 million, respectively.

Republic of the Philippines Credit Linked Notes

On February 15, 2008, Smart invested in a Credit Linked Note, or CLN, of Php205 million (with a notional amount of US$5 million) issued by ING Amsterdam ("Issuer"), with the bonds issued by the Republic of the Philippines, or ROP, as the underlying credit. The CLN bears semi-annual coupon payments to effectively yield 6.125% per annum and matures on February 15, 2011. On maturity date, the issuer has the option to settle the interest and principal amount in U.S. Dollars or its equivalent amount in Philippine Pesos, calculated at a fixed exchange rate. Coupon payment dates are semi-annual every February 15 and August 15, provided that no termination and/or early redemption event has occurred. If a termination or early redemption event occurs, interest shall cease to accrue and the Issuer has the option on settlement date to settle the notes by paying cash or to deliver the Deliverable Obligations (as defined in the CLN) to Smart. Under *PAS 39*, if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial asset or financial liability at fair value through profit or loss. Since the investment in CLN contains multiple embedded derivatives, Smart designated the entire instrument as a financial asset at fair value through profit or loss. On February 10, 2009, Smart opted to unwind the entire investment in the CLN with net proceeds of Php203 million. Gain on change in fair value of investment for the year ended December 31, 2009 amounted to Php10 million while loss on change in fair value of investment for the year ended December 31, 2008 amounted to Php5 million.

12. Investment Properties

Movements in investment properties are as follows:

	2009	2008
	(in million pesos)	
Balance at beginning of year	**617**	577
Net gains from fair value adjustments (Note 3)	**352**	59
Transfer from property, plant and equipment (Note 9)	**262**	–
Disposals	**(21)**	(19)
Balance at end of year (Notes 3 and 28)	**1,210**	617

Investment properties are stated at fair values, which have been determined annually based on the year-end appraisal performed by an independent firm of appraisers, an industry specialist in valuing these types of investment properties. The valuation undertaken was based on an open market value, supported by a market evidence in which assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction at the dates of valuation. None of our investment properties are being leased to third parties that earn rental income.

Repairs and maintenance expenses relating to investment properties amounted to Php24 million, Php3 million and Php6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

13. Business Combinations and Acquisition of Non-Controlling Interests

2009 Acquisitions

PLDT's Acquisition of Philcom

On January 3, 2009, PLDT, PGR and PGCI executed a Share Assignment Agreement wherein PGCI sold to PLDT the rights, title and interest in all of the outstanding shares of Philcom's common stock for a cash consideration of Php75 million. See *Note 2 – Summary of Significant Accounting Policies*.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	1,851
Available-for-sale financial assets	5
Deferred income tax assets – net	3
Cash and cash equivalents	51
Trade and other receivables	204
Inventories and supplies	15
Prepayments	8
	2,137
Liabilities:	
Long-term debt	340
Deferred income tax liabilities	381
Pension and other employee benefits	13
Accounts payable	1,206
Accrued expenses and other current liabilities	77
Dividends payable	2
Income tax payable	3
	2,022
	115
Non-controlling interests	40
Net assets acquired	75

Non-controlling interests represent the interest not owned by Philcom in its two subsidiaries, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value and gross amount of trade and other receivables amounted to Php204 million and Php679 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php475 million.

Total revenues and net income of Philcom included in our 2009 consolidated income statement from the time of acquisition until December 31, 2009 amounted to Php387 million and Php2 million, respectively.

ePLDT's Acquisition of BayanTrade

On January 20, 2009 and April 15, 2009, ePLDT acquired additional equity interest of 34.3% and 48.4%, respectively, in BayanTrade for cash consideration of Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.5% as at April 15, 2009. As a result of the transaction, provisional goodwill amounting to Php184 million, representing the difference between the consideration of Php61 million, net of Php5 million accumulated equity share in net losses of BayanTrade, and the book value of the interest acquired, was recognized. See *Note 2 – Summary of Significant Accounting Policies*.

The purchase price consideration has been initially allocated to the assets and liabilities on the basis of provisional values on April 15, 2009 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	21
Provisional goodwill (Note 14)	184
Deferred income tax assets – net	19
Advances and refundable deposits	11
Cash and cash equivalents	6
Trade and other receivables	179
Prepayments and other current assets	6
	426

	(in million pesos)
Liabilities:	
Long-term debt	150
Pension and other employee benefits	5
Other noncurrent liabilities	59
Accounts payable	85
Accrued expenses and other current liabilities	75
	374
	52
Non-controlling interests	(9)
Net assets acquired	61

The net assets recognized at the date of acquisition were based on provisional fair values since we are still in the process of finalizing the valuation as at March 2, 2010.

Non-controlling interests represent interest not owned by ePLDT, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php179 million and Php11 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php195 million and Php11 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php16 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The provisional goodwill of Php184 million pertains to the fair value of assembled workforce which offers managed information technology services and has personnel with skills in Systems, Applications and Products, Microsoft and other Enterprise Resource Planning, or ERP. They have the largest pool of ERP practitioners in the region.

Our consolidated revenues would have increased by Php61 million while our consolidated net income would have decreased by Php19 million for the year ended December 31, 2009 had the acquisition of BayanTrade actually taken place on January 1, 2009. Total revenues and net losses of BayanTrade included in our 2009 consolidated income statement from April 15, 2009 to December 31, 2009 amounted to Php275 million and Php27 million, respectively.

Smart's Acquisition of Non-Controlling Interests in Piltel

Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire at Php8.50 per share, payable in cash and in full on August 12, 2009, from Piltel's non-controlling shareholders to approximately 840 million shares. These shares represented approximately 7.2% of the outstanding common stock of Piltel at that time. Smart filed the Tender Offer Report with the PSEC and the PSE on June 23, 2009 pursuant to Section 19 of the SRC. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93.0% of Piltel's non-controlling shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of Piltel. 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 statements of financial position. See *Note 2 – Summary of Significant Accounting Policies*.

Smart's Acquisition of Shares in BOW

In July 2009, Smart (through its subsidiary, SCH) increased its shareholdings in BOW, a Dublin-based company delivering GSM communication capability for the merchant maritime sector 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%. Total acquisition cost for Smart's investment in BOW amounted to US$9 million, or Php439 million, which consists of: (a) US$4 million, or Php182 million, in cash; (b) US$2 million, or Php119 million, worth of advances; and (c) fair value of previously held interest amounting to Php138 million. Net cash outflow related to the acquisition was US$12 million, or Php552 million, representing cash payment of US$17 million, or Php783 million, net of cash acquired from BOW of US$5 million, or Php231 million. See *Note 2 – Summary of Significant Accounting Policies* and *Note 10 – Investments in Associates and Joint Ventures*.

The purchase price consideration has been allocated to the assets and liabilities on the basis of fair values in July 2009 as follows:

	In U.S. Dollar	In Php[1]
	(in millions)	
Assets:		
Property, plant and equipment	12	558
Goodwill (Note 14)	1	45
Intangible assets (Note 14)	5	221
Advances and refundable deposits	–	7
Cash and cash equivalents	5	231
Trade and other receivables	–	33
Prepayments	–	31
	23	1,126
Liabilities:		
Long-term debt	4	203
Accrued expenses and other current liabilities	2	106
	6	309
	17	817
Non-controlling interests	8	378
Net assets acquired	9	439

[1] *Converted to Philippine Peso using the exchange rate at the time of purchase of Php48.07 to US$1.00.*

Non-controlling interests represent interest not owned by Smart, which is measured at proportionate share in fair values of identifiable assets and liabilities acquired at the date of acquisition.

The fair value of trade and other receivables and advances and refundable deposits, which is equal to gross amount, amounted to Php33 million and Php7 million, respectively. None of the trade and other receivables and advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The acquisition date fair value of previously held equity interest of 28.3% by Smart immediately before the acquisition date amounted to Php138 million. The amount of loss recognized as a result of remeasuring previously held equity interest to fair value amounted to Php381 million and is included in "Equity share in net earnings (losses) of associates and joint ventures" in our consolidated income statement.

The goodwill of Php45 million pertains to the fair value of the expected synergies arising from the acquisition of BOW by SCH. BOW is expected to complement *Smart Link*, Smart's satellite service catering to the mobile communication requirements of the international maritime market.

Our consolidated revenues would have increased by Php68 million while our consolidated net income would have decreased by Php300 million for the year ended December 31, 2009 had the acquisition of BOW actually taken place on January 1, 2009. Total revenues and net losses of BOW included in our 2009 consolidated income statement from July 2009 to December 31, 2009 amounted to Php10 million and Php906 million, respectively.

SPi's Acquisition of Laguna Medical

On August 31, 2009, SPi acquired through SPi-America, a wholly-owned U.S. subsidiary of SPi, 100% equity interest in Laguna Medical for cash contribution of US$6.6 million, or Php313 million, plus a contingent consideration in the form of a mandatory put-call option with an aggregate fair value at acquisition date of US$5.4 million, or Php257 million. As at date of the acquisition, the net cash outflows related on acquisition was US$5.6 million, or Php287 million, representing cash payments of US$6.6 million, or Php313 million, net of cash acquired from Laguna Medical of US$1 million, or Php26 million. Total purchase price consideration including the fair market value of contingent liability at acquisition date amounted to US$12 million, or Php570 million. Incidental cost related to the acquisition was expensed. See *Note 2 – Summary of Significant Accounting Policies, Note 21 – Deferred Credits and Other Noncurrent Liabilities* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

The purchase consideration has been initially allocated to the assets and liabilities on the basis of provisional values on August 31, 2009 as follows:

	In U.S. Dollar	In Php(1)
	(in millions)	
Assets:		
Property, plant and equipment	–	8
Provisional goodwill (Note 14)	10	494
Deferred income tax assets – net	1	10
Cash and cash equivalents	1	26
Trade and other receivables	1	59
	13	597
Liability:		
Accrued expenses and other current liabilities	1	27
Net assets acquired	12	570

(1) *Converted to Philippine Peso using the exchange rate at the time of purchase of Php47.42 to US$1.00.*

The net assets recognized at the date of acquisition were based on provisional fair values as SPi had sought an independent valuation for the assets owned by Laguna Medical. The results of this valuation had not been finalized as at March 2, 2010.

The fair value of trade and other receivables, which is equal to gross amount, amounted to Php59.4 million. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php0.4 million.

The provisional goodwill of Php494 million pertains to the fair value of expanding the healthcare product offering of SPi.

Our consolidated revenues would have increased by Php237 million while our consolidated net income would have increased by Php8 million for the year ended December 31, 2009 had the acquisition of Laguna Medical actually taken place on January 1, 2009. Total revenues and net income of Laguna Medical included in our 2009 consolidated income statement from August 31, 2009 to December 31, 2009 amounted to Php103 million and Php0.3 million, respectively.

Smart's Acquisition of PDSI

Smart acquired 84 million shares, 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 which took place on May 14, 2009, involved the acquisition of 34 million shares representing 40% interest for a consideration of Php632 million; and (b) the Second Closing which took place on October 2, 2009, involved the acquisition of 50 million shares representing 60% interest for a consideration of Php937 million. See *Note 2 – Summary of Significant Accounting Policies*.

The purchase price consideration has been initially allocated to the assets and liabilities on the basis of provisional values on October 2, 2009 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	42
Provisional goodwill (Note 14)	1,597
Prepayments	10
Advances and refundable deposits – net of current portion	8
Cash and cash equivalents	12
Trade and other receivables	42
Current portion of advances and refundable deposits	6
	1,717
Liabilities:	
Accounts payable	30
Accrued expenses and other current liabilities	116
Income tax payable	2
	148
Net assets acquired	1,569

The net assets recognized at the date of acquisition were based on provisional fair values as Smart had sought an independent valuation for the assets owned by PDSI. The results of this valuation had not been finalized as at March 2, 2010.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php42 million and Php14 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php48 million and Php14 million, respectively. The amount of allowance for impairment for uncollectible trade and other receivables amounted to Php6 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The acquisition date fair value of the 40% equity interest in PDSI that had been held by Smart immediately before the acquisition date amounted to Php632 million. Smart has decided not to remeasure its initial investment since no material transactions occurred in PDSI from the time that Smart held 40% equity interest to the time that it acquired 100% equity interest in PDSI.

The provisional goodwill of Php1,597 million pertains to the fair value of the expected synergies arising from the acquisition of PDSI by Smart. PDSI is expected to complement SBI's broadband internet service.

Our consolidated revenues would have increased by Php241 million while our consolidated net income would have decreased by Php9 million for the year ended December 31, 2009 had the acquisition of PDSI actually taken place on January 1, 2009. Total revenues and net losses of PDSI included in our 2009 consolidated net income from October 2, 2009 to December 31, 2009 amounted to Php80 million and Php13 million, respectively.

Smart's Acquisition of Chikka

On December 18, 2009, Smart acquired 120 thousand common shares, representing 100% of the outstanding share capital of Chikka 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 closing date of December 18, 2009 and the balance of US$1.4 million, or Php65 million, shall be settled on a date mutually acceptable to both parties. See *Note 2 – Summary of Significant Accounting Policies* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

The purchase price consideration has been initially allocated to the assets and liabilities on the basis of provisional values on December 18, 2009 as follows:

	(in million pesos)
Assets:	
Property, plant and equipment	8
Provisional goodwill (Note 14)	561
Intangible assets (Note 14)	27
Advances and refundable deposits – net of current portion	1
Cash and cash equivalents	89
Trade and other receivables	51
Current portion of advances and refundable deposits	19
	756
Liabilities:	
Accounts payable	8
Accrued expenses and other current liabilities	105
Accrued retirement benefits	12
Income tax payable	2
	127
Net assets acquired	629

The net assets recognized at the acquisition date were based on provisional fair values as Smart will seek an independent valuation for the assets owned by Chikka.

The fair value of trade and other receivables and advances and refundable deposits amounted to Php51 million and Php20 million, respectively. The gross amount of trade and other receivables and advances and refundable deposits amounted to Php67 million and Php20 million, respectively. The amount of allowance for impairment for uncollectible amount for trade and other receivables amounted to Php16 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The provisional goodwill of Php561 million pertains to the fair value of the expected synergies arising from the acquisition of Chikka by Smart. As a content provider, Chikka is expected to enhance Smart's revenue stream from VAS.

Our consolidated revenues would have increased by Php189 million while our consolidated net income would have decreased by Php6 million for the year ended December 31, 2009 had the acquisition of Chikka actually taken place on January 1, 2009. The results of operation of Chikka from December 18, 2009 to December 31, 2009 were no longer included in our 2009 consolidated income statement since it is not material.

2008 Acquisitions

ePLDT's Acquisition of Non-controlling Interests in Airborne Access

On March 24, 2008, ePLDT acquired for Php1 million in cash additional shares from the non-controlling stockholders of Airborne Access, thereby increasing its 51% ownership interest to 99.4%. As a result of the transaction, goodwill amounting to Php13 million, representing the difference between the consideration and the book value of the interest acquired, was recognized.

Smart's Acquisition of PHC, FHI and CURE

On April 25, 2008, Smart acquired the entire issued and outstanding capital stock of PHC and FHI, which collectively owned 100% equity interest of CURE for a total consideration of Php420 million. Smart initially recorded the assets and liabilities of PHC, FHI and CURE at net book values and recognized provisional goodwill of Php248 million representing the difference between Smart's acquisition cost and the net book value of the assets and liabilities acquired. An independent appraiser engaged by Smart confirmed the provisional allocation. Based on the appraisal report, the final values of the identifiable acquired assets and liabilities of PHC, FHI and CURE as at the time of the acquisition are as follows:

	Previous Carrying Value	Fair Value Recognized on Acquisition
	(in million pesos)	
Assets:		
Property, plant and equipment – net	115	115
Investments in associates and joint ventures	6	6
Goodwill (Note 14)	–	248
Advances and refundable deposits – net of current portion	4	4
Cash and cash equivalents	52	52
Current portion of advances and refundable deposits	78	78
	255	503
Liabilities:		
Accounts payable	82	82
Accrued expenses and other current liabilities	1	1
	83	83
Net assets acquired	172	420

The fair value of advances and refundable deposits, which is equal to its gross amount, amounted to Php82 million. None of the advances and refundable deposits has been impaired and it is expected that the full contractual amount can be collected.

The goodwill of Php248 million pertains to the fair value of the expected synergies arising from the acquisition of PHC, FHI and CURE by Smart.

Our consolidated revenues would have increased by Php2 million while our consolidated net income would have decreased by Php124 million for the year ended December 31, 2008 had the acquisition of PHC, FHI and CURE actually taken place on January 1, 2008. Total revenues and net losses of PHC, FHI and CURE included in our 2008 consolidated income statement from the time of acquisition until December 31, 2008 amounted to Php9 million and Php179 million, respectively.

14. Goodwill and Intangible Assets

Movements in goodwill and intangible assets are as follows:

	Intangible Assets							
	Customer List	Spectrum	Licenses	Technology Application	Trademark	Total Intangible Assets	Goodwill	Total Goodwill and Intangible Assets
				(in million pesos)				
December 31, 2009								
Costs:								
Balance at beginning of year	1,696	1,205	370	894	–	4,165	12,289	16,454
Business combination (Notes 3, 13 and 21)	–	–	221	–	27	248	3,013	3,261
Translation and other adjustments	(41)	–	22	73	–	54	(101)	(47)
Balance at end of year	1,655	1,205	613	967	27	4,467	15,201	19,668
Accumulated amortization and impairment:								
Balance at beginning of year	794	348	203	860	–	2,205	3,799	6,004
Impairment during the year (Notes 4 and 5)	–	–	213	73	–	286	93	379
Amortization during the year	220	80	37	31	–	368	–	368
Translation and other adjustments	(19)	–	(5)	–	–	(24)	(83)	(107)
Balance at end of year	995	428	448	964	–	2,835	3,809	6,644
Net balance at end of year (Notes 3 and 28)	660	777	165	3	27	1,632	11,392	13,024
Estimated useful lives (in years)	1 – 7	15	2 – 18	4 – 5	6	–	–	–
Remaining useful lives (in years)	1 – 4	10	2 – 13	1	6	–	–	–
December 31, 2008								
Costs:								
Balance at beginning of year	1,486	1,205	318	812	–	3,821	10,879	14,700
Translation adjustments	210	–	–	(1)	–	209	1,312	1,521
Business combination (Notes 3, 13 and 21)	–	–	–	–	–	–	261	261
Additions during the year	–	–	–	83	–	83	–	83
Reclassifications	–	–	52	–	–	52	–	52
Adjustments during the year	–	–	–	–	–	–	(163)	(163)
Balance at end of year	1,696	1,205	370	894	–	4,165	12,289	16,454
Accumulated amortization and impairment:								
Balance at beginning of year	384	268	182	516	–	1,350	1,629	2,979
Impairment during the year (Notes 4 and 5)	127	–	–	297	–	424	2,026	2,450
Amortization during the year	231	80	19	47	–	377	–	377
Translation adjustments	52	–	(1)	–	–	51	144	195
Reclassifications	–	–	3	–	–	3	–	3
Balance at end of year	794	348	203	860	–	2,205	3,799	6,004
Net balance at end of year (Notes 3 and 28)	902	857	167	34	–	1,960	8,490	10,450
Estimated useful lives (in years)	3 – 7	15	6 – 18	4 – 5	–	–	–	–
Remaining useful lives (in years)	3 – 4	11	3 – 14	1 – 2	–	–	–	–

Intangible Assets

In 2009, Smart recognized intangible assets of Php221 million for licenses and fees in BOW for the perpetual and exclusive worldwide maritime licenses granted by Altobridge, Limited to BOW to facilitate the successful communication between GSM and satellite communication networks. Smart recognized an impairment charge of Php213 million, net of amortization of Php8 million, for the year ended December 31, 2009, reducing the amount of intangible assets in BOW to zero as at December 31, 2009. The impairment loss resulted from the annual impairment test done on the assets. See *Note 9 – Property, Plant and Equipment* for the basis of impairment valuation.

Smart also recognized in 2009 intangible assets of Php51 million in Chikka for patents and trademark relating to Chikka's internet-based instant messaging facility. These applications were filed in different countries such as Singapore, United Kingdom and the U.S.

In 2007, Smart recognized intangible assets for technology and license costs in 3rd Brand amounting to US$4 million, or Php172 million, for an Internet Protocol, or IP, communication platform that enables quality peer-to-peer VoIP calls from mobile phones using IP networks. The technology and license costs were estimated to have a useful life of three years. Additional costs of intangible assets of Php73 million and Php29 million were incurred in 2009 and 2008, respectively. In its impairment review for 2009 and 2008, Smart determined that the future cash flows expected from the service making use of the IP communication platform will not be sufficient to cover the technology and license costs booked as intangible assets. Consequently, Smart recognized impairment losses amounting to Php73 million and Php201 million for the years ended December 31, 2009 and 2008, respectively, reducing the intangible assets in 3rd Brand to zero as at December 31, 2009.

In 2007, Smart recognized intangible assets amounting to Php41 million for technology and license costs incurred in connection with SCH's GSM connectivity service for the commercial shipping sector. Smart (through SCH) engaged the services of THISS Technologies Pte. Ltd., or THISS, as developer and supplier for this service. In 2008, additional development costs of Php54 million were incurred and recognized as intangible assets. In its impairment review for 2008, Smart determined that the future cash flows expected from the GSM connectivity service will not be sufficient to cover the technology and license costs booked as intangible assets for this project. Consequently, Smart recognized impairment losses amounting to Php95 million for the year ended December 31, 2008, reducing the intangible assets for the THISS project to zero as at December 31, 2008.

In 2008, ePLDT recognized impairment in its intangible assets in SPi and Level Up! amounting to Php123 million and Php5 million, respectively, representing write-downs to recoverable amount using the value in use approach. The impairment resulted from a projected decline in revenues related to certain customer relationship and license agreements. The value in use was based on the discounted cash flow projection using the most recent financial forecast approved by management. In 2009, ePLDT performed an impairment testing in its intangible assets from the acquisition of SPi and Level Up! and no additional impairment charge was recognized.

The consolidated future amortization of other intangible assets as at December 31, 2009 is as follows:

Year	(in million pesos)
2010	343
2011	302
2012	248
2013	193
2014 and onwards	546
Balance at end of year	1,632

Impairment Testing of Goodwill

Goodwill from Acquisition of SBI, CURE and Airborne Access

The organizational structure of Smart and its subsidiaries is designed to monitor financial operations based on fixed line and wireless segmentation. Management provides guidelines and decisions on resource allocation, such as continuing or disposing of asset and operations by evaluating the performance of each segment through review and analysis of available financial information on the fixed and wireless segments. As at December 31, 2009, Smart's goodwill comprised of goodwill resulting from Smart's acquisition of SBI in 2004, CURE in 2008, SBI's acquisition of a 99.4% equity interest in Airborne Access from ePLDT in 2008, and based on provisional value acquisition of PDSI and Chikka in 2009. The test for recoverability of Smart's goodwill, excluding provisional goodwill, was applied to the wireless asset group, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows from other groups of assets and liabilities.

Although revenue streams may be segregated among Smart, CURE and SBI through subscribers availing themselves of their respective cellular (for Smart and CURE) and wireless broadband (for SBI) services, the cost items and cash flows are difficult to carve out due largely to the significant portion of shared and common-used network/platform. In the case of CURE, it provides cellular services to its subscribers using Smart's 3G network. SBI, on the other hand, provides broadband wireless access to its subscribers using Smart's cellular base stations and fiber optic and IP backbone. With the common use of wireless assets of Smart in providing 3G cellular and wireless broadband access, the lowest level of assets of CURE and SBI for which cash flows are clearly identifiable from other groups of assets is Smart's wireless business segment.

The recoverable amount of this segment had been determined on the basis of value in use calculations using cash flow projections based on the financial budgets approved by the Board of Directors, covering a five-year period from 2010 to 2014. The pre-tax discount rate applied to cash flow projections is 8.7% and cash flows beyond the five-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

Other than as discussed above, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the wireless business segment to exceed its recoverable amount.

Goodwill from Acquisition of BOW

In December 2009, SCH recognized full impairment loss of Php45 million on goodwill resulting from its acquisition of BOW. The impairment loss resulted from the annual impairment test done on the assets. See *Note 9 – Property, Plant and Equipment* for the basis of impairment valuation.

Goodwill from Acquisition of SPi and its Subsidiaries, CyMed, Inc., or CyMed, and Springfield Service Corp., or Springfield

The goodwill acquired through the SPi, CyMed and Springfield transactions was allocated for impairment testing to each of the cash-generating units of those businesses, namely medical transcription, litigation, content and medical billing. The recoverable amount of goodwill was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors, which management believes are reasonable and are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The discount rate applied was 15% which was based on the weighted average cost of capital adjusted for the difference in currency and specific risks associated with the assets or business of a cash-generating unit.

ePLDT recognized an impairment loss of Php1,815 million for the year ended December 31, 2008 pertaining to the medical transcription and litigation businesses of SPi, since the carrying amount of the individual assets of the said business, exceeded the recoverable amount in 2008. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of SPi and its Subsidiaries, CyMed and Springfield and no additional impairment charge was recognized.

Goodwill from Acquisition of Level Up!

Goodwill acquired from our acquisition of 60% equity interest in Level Up! was tested for impairment where the recoverable amount was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets and forecasts approved by the Board of Directors. The discount rate applied was 22% which was based on the weighted average cost of capital. ePLDT recognized an impairment charge of Php203 million for the year ended December 31, 2008 pertaining to the goodwill from acquisition of Level Up!. In 2009, ePLDT performed an impairment testing in its goodwill from the acquisition of Level Up! and no additional impairment charge was recognized.

Goodwill from Acquisition of Digital Paradise

Goodwill acquired from the acquisition of Digital Paradise was tested for impairment based on the recoverable amount of the long lived assets where recoverable amount was determined based on the cash flow projections on the most recent financial budgets and forecasts approved by the Board of Directors. The discount rate applied was 22% which was based on the weighted average cost of capital. ePLDT recognized an impairment charge of Php48 million, Php8 million and Php29 million for the years ended December 31, 2009, 2008 and 2007, respectively.

15. Cash and Cash Equivalents

This account consists of:

	2009	2008
	(in million pesos)	
Cash on hand and in banks (Note 28)	**3,300**	4,164
Temporary cash investments (Note 28)	**35,019**	29,520
	38,319	33,684

Cash in banks earns interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on our immediate cash requirements, and earn interest at the prevailing short-term deposit rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments. See *Note 28 – Financial Assets and Liabilities*.

Interest income earned from cash in banks and temporary cash investments amounted to Php1,185 million, Php1,523 million and Php1,257 million for the years ended December 31, 2009, 2008 and 2007, respectively.

16. Trade and Other Receivables

This account consists of receivables from:

	2009	2008
	(in million pesos)	
Corporate subscribers (Notes 24 and 28)	**9,106**	9,188
Retail subscribers (Note 28)	**8,026**	8,993
Foreign administrations (Note 28)	**4,353**	5,916
Domestic carriers (Notes 24 and 28)	**1,267**	877
Dealers, agents and others (Notes 24 and 28)	**3,927**	3,271
	26,679	28,245
Less allowance for doubtful accounts	**11,950**	12,336
	14,729	15,909

Movements in the allowance for doubtful accounts are as follows:

	Total	Corporate Subscribers	Retail Subscribers	Foreign Administrations	Domestic Carriers	Dealers, Agents and Others
			(in million pesos)			
December 31, 2009						
Balance at beginning of year	12,336	6,323	5,089	439	174	311
Provisions for the year (Notes 3 and 5)	2,335	670	1,512	18	35	100
Business combinations (Note 13)	513	36	454	–	–	23
Reversals	(46)	(18)	(9)	(13)	(6)	–
Write-offs	(3,212)	(1,178)	(1,657)	(216)	(157)	(4)
Translation and other adjustments	24	844	(909)	61	37	(9)
Balance at end of year	11,950	6,677	4,480	289	83	421
Individual impairment	9,624	6,256	2,595	289	83	401
Collective impairment	2,326	421	1,885	–	–	20
	11,950	6,677	4,480	289	83	421
Gross amount of receivables individually impaired, before deducting any impairment allowance	9,624	6,256	2,595	289	83	401
December 31, 2008						
Balance at beginning of year	12,855	5,875	4,318	1,047	381	1,234
Provisions for the year (Notes 3, 4 and 5)	1,079	98	850	85	26	20
Reversals	(16)	–	–	(2)	(13)	(1)
Write-offs	(1,693)	(314)	(189)	(645)	(142)	(403)
Translation and other adjustments	111	664	110	(46)	(78)	(539)
Balance at end of year	12,336	6,323	5,089	439	174	311
Individual impairment	11,636	6,056	4,656	439	174	311
Collective impairment	700	267	433	–	–	–
	12,336	6,323	5,089	439	174	311
Gross amount of receivables individually impaired, before deducting any impairment allowance	11,708	6,128	4,656	439	174	311

Receivables from foreign administrations and domestic carriers represent receivables arising from interconnection agreements with other telecommunication carriers. The aforementioned amounts of receivables are shown net of related payable to the same telecommunications carriers because legal right of offset exists and settlement is facilitated on a net basis.

17. Inventories and Supplies

This account consists of:

	2009	2008
	(in million pesos)	
Spare parts and supplies:		
At net realizable value	**982**	966
At cost	**1,998**	1,933
Terminal and cellular phone units:		
At net realizable value	**652**	936
At cost	**981**	1,098
Others:		
At net realizable value	**531**	167
At cost	**534**	167
Total inventories at the lower of cost or net realizable value (Note 28)	**2,165**	2,069

The cost of inventories and supplies recognized as expense for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
		(in million pesos)	
Cost of sales	**4,714**	4,380	4,778
Repairs and maintenance	**429**	549	409
Write-down of inventories and supplies (Notes 3 and 5)	**389**	242	243
	5,532	5,171	5,430

18. Prepayments

This account consists of:

	2009	2008
	(in million pesos)	
Prepaid taxes	**7,768**	6,178
Prepaid benefit costs (Notes 3 and 25)	**5,414**	–
Prepaid rent – net (Notes 3, 5 and 26)	**208**	31
Prepaid insurance (Note 24)	**109**	161
Prepaid fees and licenses	**44**	100
Other prepayments	**218**	195
	13,761	6,665
Less current portion of prepayments (Note 28)	**5,098**	4,164
Noncurrent portion of prepayments (Note 28)	**8,663**	2,501

Prepaid taxes include creditable withholding taxes, input VAT and real property taxes.

Option to Purchase Series C Preferred Shares of ProtoStar

On September 16, 2008, PLDT signed an Option to Purchase Series C Preferred Shares of ProtoStar pursuant to which PLDT was entitled to subscribe for and purchase 39.7 million Series C Preferred Shares at the exercise price of US$0.6925 per share during the exercise period. PLDT paid an amount of US$27.5 million to ProtoStar to be utilized by PLDT to pay the exercise price if PLDT exercised the option at or prior to expiration of the exercise period, otherwise, such payment would be applied as payment of the service fees to ProtoStar under the Space Segment Service Agreement between PLDT and ProtoStar. On May 15, 2009, PLDT formally advised ProtoStar that it will not exercise its option to purchase ProtoStar's Series C Preferred Shares and that it has elected to apply the US$27.5 million as Priority Deposit under the Space Segment Services Agreement, which amount is deemed as full prepayment of the space segment services under said agreement. The US$27.5 million (peso equivalent of Php1,304 million in 2009 and Php1,616 million in 2008), was presented as part of prepaid rent in the above table in 2009 and advances in 2008 under "Current portion of advances and refundable deposits" in our statements of financial position.

On July 29, 2009, ProtoStar and its affiliates ProtoStar Satellite Systems, Inc., ProtoStar I Ltd., ProtoStar II Ltd., ProtoStar Development Ltd. and ProtoStar Asia Pte. Ltd. each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are pending before the United States Bankruptcy Court for the District of Delaware. PLDT is actively participating in the ProtoStar bankruptcy cases through a legal counsel to preserve the value of its prepayment. An auction of ProtoStar's ProtoStar I satellite was held in October 2009 and of ProtoStar's ProtoStar II satellite in December 2009, the proceeds of which are to be distributed first to ProtoStar's secured lenders and the balance, if any, to its unsecured lenders, once the bankruptcy court has finally determined over the objection and challenge of the unsecured lenders, that the secured lenders have perfected their security over said assets and are entitled to priority in payment. On this basis, we recognized a full impairment provision of US$27.5 million, or Php1,304 million, in 2009 with respect to our prepayments on the Space Segment Services. See *Note 26 – Contractual Obligations and Commercial Commitments*.

19. Equity

The movement of PLDT's capital account as at December 31, 2007, 2008 and 2009 are as follows:

	Preferred Stock – Php10 par value per share				Common Stock – Php5 par value per share	
	Series A to EE	IV	Total Preferred Stock			
	No. of Shares			Amount	No. of Shares	Amount
				(in millions)		
Authorized			823	Php8,230	234	Php1,170
Issued						
Balance as at January 1, 2007	406	36	442	Php4,424	188	Php942
Issuance	–	–	–	1	–	–
Conversion	(1)	–	(1)	(8)	–	1
Balance as at December 31, 2007	**405**	**36**	**441**	**Php4,417**	**188**	**Php943**
Balance as at January 1, 2008	405	36	441	Php4,417	188	Php943
Issuance	–	–	–	1	–	1
Conversion	–	–	–	(3)	1	3
Balance as at December 31, 2008	**405**	**36**	**441**	**Php4,415**	**189**	**Php947**
Balance as at January 1, 2009	405	36	441	Php4,415	189	Php947
Issuance	–	–	–	2	–	–
Conversion	–	–	–	(1)	–	–
Balance as at December 31, 2009	**405**	**36**	**441**	**Php4,416**	**189**	**Php947**

Preferred Stock

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to II 10% Cumulative Convertible Preferred Stock earns cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the ask prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2009, was Php5.00 per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the subscriber investment plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock outstanding are at anytime subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares of stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sale price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall deem appropriate.

At PLDT's option, the Series A to II 10% Cumulative Convertible Preferred Stock are redeemable at par value plus accrued dividends five years after the year of issuance.

On January 26, 2010, the Board of Directors designated 100 thousand shares of preferred stock as Series II 10% Cumulative Convertible Preferred Stock for issuance from January 1, 2010 to December 31, 2012.

The issuance of each of SIP Series FF, GG and HH is an exempt transaction under Section 10.2 of the SRC, as confirmed by the Philippine SEC in a letter sent to us on April 2, 2007. As at December 31, 2009, there were no issued and outstanding shares for Series FF, GG and HH.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends.

The provisions of certain subscription agreements involving preferred stock have an effect on the ability of PLDT to, without written consent, sell certain assets and pay cash dividends unless all dividends for all past quarterly dividend periods have been paid, and provision has been made for the currently payable dividends.

Common Stock

In 2008, the Board of Directors approved a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. The share buyback program reflects PLDT's commitment to capital management as an important element in enhancing shareholder value. This also reinforces initiatives that PLDT has already undertaken such as the declaration of special dividends on common stock in addition to the regular dividend payout equivalent to 70% of our earnings per share, after having determined that PLDT has the capacity to pay additional returns to shareholders. The share buyback program contemplates that PLDT will reacquire shares on an opportunistic basis, directly from the open market through the trading facilities of the PSE and NYSE.

As at December 31, 2009 and 2008, we had acquired a total of 2.7 million shares and 2.0 million shares of common stock, respectively, at a weighted average price of Php2,387 per share and Php2,521 per share, respectively, for a total consideration of Php6,405 million and Php4,973 million, respectively, in accordance with the share buyback program. See *Note 8 – Earnings Per Common Share* and *Note 28 – Financial Assets and Liabilities*.

Dividends Declared For The Year Ended December 31, 2009

	Date			Amount	
Class	Approved	Record	Payable	Per Share	Total
					(in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	March 3, 2009	March 19, 2009	April 15, 2009	Php4.675	–
	June 9, 2009	June 25, 2009	July 15, 2009	4.675	–
	*August 4, 2009	August 22, 2009	September 10, 2009	0.051944 per day	–
Series VI	March 3, 2009	March 19, 2009	April 15, 2009	US$0.09925	–
	June 9, 2009	June 25, 2009	July 15, 2009	0.09925	–
	August 25, 2009	September 24, 2009	October 15, 2009	0.09925	–
	November 3, 2009	November 8, 2009	December 8, 2009	Php0.001103 per day	–
Charged to income					–
10% Cumulative Convertible Preferred Stock					
Series CC	January 27, 2009	February 26, 2009	March 31, 2009	Php1.00	17
Series DD	January 27, 2009	February 13, 2009	February 27, 2009	1.00	3
Series EE	March 31, 2009	April 30, 3009	May 29, 2009	1.00	–
Series A, I, R, W, AA and BB	July 7, 2009	August 6, 2009	August 28, 2009	1.00	128
Series B, F, Q, V and Z	August 4, 2009	September 1, 2009	September 30, 2009	1.00	91
Series E, K, O and U	August 25, 2009	September 24, 2009	October 30, 2009	1.00	44
Series C, D, J, T and X	September 29, 2009	October 29, 2009	November 26, 2009	1.00	57
Series G, N, P, and S	November 3, 2009	December 3, 2009	December 29, 2009	1.00	26
Series H, L, M and Y	December 8, 2009	January 4, 2010	January 29, 2010	1.00	40
					406

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
					(in million pesos)
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV**	January 27, 2009	February 20, 2009	March 15, 2009	Php–	12
	May 5, 2009	May 22, 2009	June 15, 2009	–	13
	August 4, 2009	August 19, 2009	September 15, 2009	–	13
	November 3, 2009	November 20, 2009	December 15, 2009	–	12
					50
Common Stock					
Regular Dividend	March 3, 2009	March 18, 2009	April 21, 2009	Php70.00	13,124
	August 4, 2009	August 20, 2009	September 22, 2009	77.00	14,384
Special Dividend	March 3, 2009	March 18, 2009	April 21, 2009	60.00	11,250
					38,758
Charged to retained earnings					39,214

* *Only the holders of Series V Convertible Preferred Stock whose shares were originally issued on August 22, 2002 and mandatorily converted on August 23, 2009 are entitled to this final dividend.*

** *Dividends are declared based on total amount paid up.*

Dividends Declared For The Year Ended December 31, 2008

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
					(in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	March 4, 2008	March 20, 2008	April 15, 2008	Php4.675	–
	*May 6, 2008	June 4, 2008	June 23, 2008	0.051944 per day	–
	June 10, 2008	June 26, 2008	July 15, 2008	4.675	–
	August 26, 2008	September 25, 2008	October 15, 2008	4.675	–
	December 9, 2008	December 24, 2008	January 15, 2009	4.675	–
Series VI	March 4, 2008	March 20, 2008	April 15, 2008	US$0.09925	2
	*May 6, 2008	June 4, 2008	June 23, 2008	0.001103 per day	1
	June 10, 2008	June 26, 2008	July 15, 2008	0.09925	–
	August 26, 2008	September 25, 2008	October 15, 2008	0.09925	–
	December 9, 2008	December 24, 2008	January 15, 2009	0.09925	–
Charged to income					3
10% Cumulative Convertible Preferred Stock					
Series CC	January 29, 2008	February 28, 2008	March 31, 2008	Php1.00	17
Series DD	January 29, 2008	February 15, 2008	February 29, 2008	1.00	3
Series EE	March 25, 2008	April 24, 2008	May 30, 2008	1.00	–
Series A, I, R, W, AA and BB	July 8, 2008	August 1, 2008	August 29, 2008	1.00	128
Series B, F, Q, V and Z	August 5, 2008	September 3, 2008	September 30, 2008	1.00	90
Series E, K, O and U	August 26, 2008	September 25, 2008	October 1, 2008	1.00	44
Series C, D, J, T and X	September 30, 2008	October 30, 2008	November 28, 2008	1.00	57
Series G, N, P and S	November 4, 2008	December 4, 2008	December 29, 2008	1.00	26
Series H, L, M and Y	December 9, 2008	January 2, 2009	January 30, 2009	1.00	41
					406
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV**	January 29, 2008	February 22, 2008	March 15, 2008	Php–	12
	May 6, 2008	May 23, 2008	June 15, 2008	–	12
	July 8, 2008	August 7, 2008	September 15, 2008	–	13
	November 4, 2008	November 21, 2008	December 15, 2008	–	13
					50

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
					(in million pesos)
Common Stock					
Regular Dividend	March 4, 2008	March 19, 2008	April 21, 2008	Php68.00	12,853
	August 5, 2008	August 22, 2008	September 22, 2008	70.00	13,140
Special Dividend	March 4, 2008	March 19, 2008	April 21, 2008	56.00	10,585
					36,578
Charged to retained earnings					37,034

* *Only the holders of Series V and VI Convertible Preferred Stock whose shares were originally issued on June 4, 2001 and mandatorily converted on June 5, 2008 are entitled to these final dividends.*
** *Dividends are declared based on total amount paid up.*

Dividends Declared For The Year Ended December 31, 2007

Class	Date			Amount	
	Approved	Record	Payable	Per Share	Total
					(in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	March 6, 2007	March 20, 2007	April 15, 2007	Php4.675	–
	June 12, 2007	June 28, 2007	July 15, 2007	4.675	–
	September 14, 2007	September 28, 2007	October 15, 2007	4.675	–
	December 1, 2007	December 21, 2007	January 15, 2008	4.675	–
Series VI	March 6, 2007	March 20, 2007	April 15, 2007	US$0.09925	4
	June 12, 2007	June 28, 2007	July 15, 2007	0.09925	3
	September 14, 2007	September 28, 2007	October 15, 2007	0.09925	3
	December 1, 2007	December 21, 2007	January 15, 2008	0.09925	3
Charged to income					13
10% Cumulative Convertible Preferred Stock					
Series CC	January 30, 2007	February 28, 2007	March 30, 2007	Php1.00	17
Series DD	January 31, 2007	February 15, 2007	February 28, 2007	1.00	2
Series EE	March 27, 2007	April 26, 2007	May 31, 2007	1.00	–
Series A, I, R, W, AA and BB	July 10, 2007	August 1, 2007	August 31, 2007	1.00	129
Series B, F, Q, V and Z	August 7, 2007	September 3, 2007	September 28, 2007	1.00	91
Series E, K, O and U	September 14, 2007	October 4, 2007	October 31, 2007	1.00	44
Series C, D, J, T and X	September 14, 2007	October 14, 2007	November 27, 2007	1.00	57
Series G, N, P and S	November 6, 2007	December 6, 2007	December 28, 2007	1.00	27
Series H, L, M and Y	December 1, 2007	December 28, 2007	January 31, 2008	1.00	41
					408
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 30, 2007	February 23, 2007	March 15, 2007	Php–	12
	May 8, 2007	May 25, 2007	June 15, 2007	–	13
	July 10, 2007	August 9, 2007	September 15, 2007	–	12
	November 6, 2007	November 23, 2007	December 15, 2007	–	12
					49
Common Stock					
Regular Dividend	March 6, 2007	March 20, 2007	April 20, 2007	Php50.00	9,429
	August 7, 2007	August 24, 2007	September 24, 2007	60.00	11,322
Special Dividend	August 7, 2007	August 24, 2007	September 24, 2007	40.00	7,548
					28,299
Charged to retained earnings					28,756

* *Dividends are declared based on total amount paid up.*

Dividends Declared After December 31, 2009

Class	Date Approved	Date Record	Date Payable	Amount Per Share	Amount Total
					(in million pesos)
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 26, 2010	February 19, 2010	March 15, 2010	Php–	12
10% Convertible Preferred Stock					
Series DD	January 26, 2010	February 11, 2010	February 26, 2010	Php1.00	2
Series CC	January 26, 2010	February 25, 2010	March 31, 2010	1.00	17
					19
Common Stock					
Regular Dividend	March 2, 2010	March 17, 2010	April 20, 2010	Php76.00	14,197
Special Dividend	March 2, 2010	March 17, 2010	April 20, 2010	65.00	12,142
					26,339
Charged to retained earnings					26,370

* *Dividends are declared based on total amount paid up.*

20. Interest-bearing Financial Liabilities

This account consists of the following:

	2009	2008
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities:		
Long-term debt (Notes 4, 5, 9, 23, 26 and 28)	**86,066**	58,899
Obligations under finance lease (Notes 4, 5, 23, 26 and 28)	**13**	11
	86,079	58,910
Current portion of interest-bearing financial liabilities:		
Notes payable (Notes 4, 5, 23, 26 and 28)	**2,279**	553
Long-term debt maturing within one year (Notes 4, 5, 9, 23, 26 and 28)	**10,384**	14,459
Obligations under finance lease maturing within one year (Notes 4, 5, 26 and 28)	**51**	59
Preferred stock subject to mandatory redemption (Notes 4, 5, 26 and 28)	**–**	9
	12,714	15,080

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received at initial recognition, included in the financial liabilities are as follows:

	2009	2008
	(in million pesos)	
Long-term debt (Note 28)	**3,858**	4,576
Obligation under finance lease	**3**	1
Unamortized debt discount at end of year	**3,861**	4,577

The following table describes all changes to unamortized debt discount as at December 31, 2009 and 2008.

	2009	2008
	(in million pesos)	
Unamortized debt discount at beginning of year	**4,577**	4,538
Additions during the year	**182**	154
Revaluations during the year	**22**	706
Accretion during the year included as part of "Financing costs – Accretion on financial liabilities" (Note 5)	**(920)**	(806)
Settlements and conversions during the year	**–**	(15)
Unamortized debt discount at end of year	**3,861**	4,577

Long-term Debt

Long-term debt consists of:

Description	Interest Rates	2009		2008	
		(in millions)			
U.S. Dollar Debts:					
Export Credit Agencies-Supported Loans:					
Kreditanstalt für Wiederaufbau, or KfW	5.65% and US$ LIBOR + 0.65% - 2.5% in 2009 and 5.65% - 7.58% and US$ LIBOR + 0.55% - 2.5% in 2008	**US$31**	**Php1,454**	US$74	Php3,540
Finnvera, Plc, or Finnvera	US$ LIBOR + 0.05% - 1.35% in 2009 and US$ LIBOR + 0.05% in 2008	**58**	**2,681**	30	1,420
Exportkreditnamnden, or EKN	3.79% in 2009 and 3.79% - 6.6% and US$ LIBOR + 0.15% - 0.65% in 2008	**18**	**860**	7	351
		107	**4,995**	111	5,311
Fixed Rate Notes	8.35% - 11.375% in 2009 and 2008	**385**	**17,876**	560	26,693
Term Loans:					
Debt Exchange Facility	2.25% in 2009 and 2.25% and US$ LIBOR + 1% in 2008	**209**	**9,725**	196	9,357
GSM Network Expansion Facilities	4.49% - 4.70% and US$ LIBOR + 0.42% - 1.85% in 2009 and 4.49% - 4.70% and US$ LIBOR + 0.42% - 0.815% in 2008	**157**	**7,274**	183	8,698
Others	6% and swap rate + 2.79% and US$ LIBOR + 0.42% - 0.50% in 2009 and 6% - 8.9% and US$ LIBOR + 0.40% - 0.50% in 2008	**118**	**5,484**	141	6,694
Satellite Acquisition Loans	US$ LIBOR + 1.75% to 2.75% in 2009 and 2008	**–**	**–**	13	610
		US$976	**45,354**	US$1,204	57,363
Philippine Peso Debts:					
Corporate Notes	5.625% - 9.1038% and PDST-F + 1.5% in 2009 and 5.625% - 8.4346% in 2008		**24,863**		9,921
Term Loans:					
Unsecured Term Loans	6.125% - 8.7792%; MART1 + 0.75% and PDST-F + 1% - 1.50% in 2009 and 6.125%; MART 1 + 0.75% and PDST-F + 1% - 1.50% in 2008		**26,088**		6,070
Secured Term Loans	PDST-F + 5.70% + Bank's cost of funds; PDST-F + 1.375% and AUB's prime rate in 2009 and 7.09% and MART1 + 5.70% in 2008		**145**		4
			51,096		15,995
Total long-term debt			**96,450**		73,358
Less portion maturing within one year (Note 28)			**10,384**		14,459
Noncurrent portion of long-term (Note 28)			**Php86,066**		Php58,899

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at December 31, 2009 are as follows:

	U.S. Dollar Debt		Php Debt	Total
Year	**In U.S. Dollar**	**In Php**	**In Php**	**In Php**
		(in millions)		
2010	149	6,939	3,594	10,533
2011	94	4,342	7,899	12,241
2012	224	10,421	9,627	20,048
2013	49	2,297	9,028	11,325
2014 and onwards	541	25,102	21,059	46,161
	1,057	49,101	51,207	100,308

U.S. Dollar Debts:

Export Credit Agencies-Supported Loans

In order to acquire imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies.

Kreditanstalt für Wiederaufbau, or KfW

As at December 31, 2009, we owed an aggregate principal amount of US$31 million, or Php1,454 million, to KfW, a German state-owned development bank, as follows:

- US$23 million provided in connection with the US$149 million refinancing facility discussed below; and
- US$8 million provided for the 15% downpayment portion and credit facilities without guarantee/insurance cover from the export credit agencies, of which US$5 million was in connection with the US$149 million refinancing facility discussed in the following paragraphs.

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. On various dates from 2002 to 2004, we had drawn a total of US$140 million under this facility. PLDT waived further disbursements under this refinancing facility effective September 1, 2004. Thus, the undrawn portion of US$9 million was cancelled.

The outstanding amount of US$31 million as at December 31, 2009 will mature in 2010. Principal amortizations on these loans are payable in equal semi-annual installments.

Finnvera, Plc, or Finnvera

On February 11, 2005, Smart signed a refinancing facility with Finnish Export Credit, Plc, as Lender, and ING Bank N.V., as Arranger and Facility Agent under an export credit agency-backed facility in connection with Smart's GSM expansion program. This facility is covered by a guarantee from Finnvera, the Finnish Export Credit Agency, for 100% of the political and commercial risk for the refinancing facility of GSM Phases 5A and 5B. The facility is repayable in equal semi-annual payments over five years starting September 1, 2005 with the final repayment due in March 2010. The principal benefit of refinancing the Phase 5 loan was the savings from a lower interest margin on the refinancing facility. The outstanding balance under the facility of US$10 million (US$9.98 million, net of unamortized debt discount of US$0.02 million), or Php464.2 million (Php463.5 million, net of unamortized debt discount of Php0.7 million), as at December 31, 2009 was paid in full on March 1, 2010.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, US$50 million (US$48 million, net of unamortized debt discount of US$2 million), or Php2,321 million (Php2,240 million, net of unamortized debt discount of Php81 million), remained outstanding.

On October 9, 2009, Smart signed a US$50 million five-year term loan facility to finance GSM equipment and services contracts with Finnish Export Credit, Plc guaranteed by Finnvera, the Finnish Export Credit Agency, for 100% political and commercial risk cover. The facility was awarded to Citicorp as the Arranger. The loan is payable over five years in ten equal semi-annual payments. As at December 31, 2009, no amounts have been drawn under the facility.

Exportkreditnamnden, or EKN

On November 25, 2008, Smart signed a US$22 million five-year term loan facility to finance the supply, installation, commissioning and testing of Wireless Code Division Multiple Access, or W-CDMA/High Speed Packet Access project with Nordea Bank AB as Original Lender, Arranger and Facility Agent and subsequently assigned its rights and obligations to the Swedish Export Credit Corporation (AB Svensk Exportkredit) supported by EKN on December 10, 2008. The amount of US$8 million, US$13 million and US$1 million were drawn on December 15, 2008, August 5, 2009 and September 1, 2009, respectively. This facility is payable semi-annually in ten equal installments commencing six months from December 10, 2008. As at December 31, 2009, the outstanding balance under the facility amounted to US$19 million (US$18 million, net of unamortized debt discount of US$1 million) or Php892 million (Php860 million, net of unamortized debt discount of Php32 million).

<u>Fixed Rate Notes</u>

PLDT has the following non-amortizing fixed rate notes outstanding as at December 31, 2009 and 2008:

Principal Amount	Interest Rate	Maturity Date	2009		2008	
			(in millions)			
US$245,399,000	8.350%	March 6, 2017	**US$242**	**Php11,256**	US$291	Php13,896
US$145,789,000	11.375%	May 15, 2012	**143**	**6,620**	155	7,380
US$113,786,000	10.500%	April 15, 2009	**–**	**–**	114	5,417
			US$385	**Php17,876**	US$560	Php26,693

<u>Term Loans</u>

US$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from Piltel's creditors approximately US$289 million, or 69.4%, the aggregate of Piltel's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid an amount in cash of US$1.5 million, or Php84 million and issued new debt of US$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of unamortized debt discount amounting to Php7,464 million.

As at December 31, 2009, the outstanding balance of the Facility amounted to US$280 million (US$209 million, net of unamortized debt discount of US$71 million), or Php13,005 million (Php9,725 million, net of unamortized debt discount of Php3,280 million). The Facility will be payable in full on June 30, 2014.

GSM Network Expansion Facilities

On September 13, 2004, Smart signed a US$104 million five-year term loan facility to finance the related Phase 7 GSM equipment and services. The facility was awarded to ABN AMRO Bank, Banque National de Paribas, Calyon, DBS Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers with Finnish Export Credit, Plc as the Lender. This facility is payable over five years in ten equal semi-annual payments starting May 2005. The final repayment was made in November 2009.

On August 8, 2005, Smart signed a US$30 million commercial facility with Nordic Investment Bank to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a five-year term loan payable semi-annually in ten equal installments with final repayment on July 11, 2011. The facility was drawn on July 11, 2006 for the full amount of US$30 million. As at December 31, 2009, the amount of US$12 million (US$11.97 million, net of unamortized debt discount of US$0.03 million), or Php557 million (Php556 million, net of unamortized debt discount of Php1 million), remained outstanding.

On August 10, 2005, Smart signed a loan facility for its GSM Phase 8 financing in the amount of US$70 million. The facility was awarded to the Bank of Tokyo Mitsubishi Ltd., Mizuho Corporate Bank Ltd., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers, with Finnish Export Credit, Plc as the Lender. Smart opted to utilize only a total of US$67 million of which US$10 million and US$57 million were drawn on February 15, 2006 and March 13, 2006, respectively. The undrawn balance of US$3 million was cancelled. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on September 1, 2010. As at December 31, 2009, US$14.62 million (US$14.6 million, net of unamortized debt discount of US$0.02 million), or Php679 million (Php678 million, net of unamortized debt discount of Php1 million), remained outstanding.

On July 31, 2006, Smart signed a U.S. Dollar term loan facility for US$44.2 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is Finnish Export Credit, Plc with ABN AMRO Bank N.V., Standard Chartered Bank, Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the Lead Arrangers. The facility is a five-year term loan payable in ten equal semi-annual installments with final repayment on July 15, 2011. The facility was drawn on November 10, 2006 for the full amount of US$44.2 million. As at December 31, 2009, US$17.68 million (US$17.64 million, net of unamortized debt discount of US$0.04 million), or Php821 million (Php819 million, net of unamortized debt discount of Php2 million), remained outstanding.

On October 16, 2006, Smart signed a U.S. Dollar term loan facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of US$50 million. The facility is a five-year loan payable in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on October 10, 2012. The facility was drawn on October 10, 2007 for the full amount of US$50 million. As at December 31, 2009, US$33.3 million, or Php1,547.5 million (Php1,547.1 million, net of unamortized debt discount of Php0.4 million), remained outstanding.

On October 10, 2007, Smart signed a US$50 million five-year term loan facility to finance the related Phase 10 GSM equipment and service contracts. The facility was awarded to Norddeutsche Landesbank Girozentrale Singapore Branch as the Original Lender with Standard Chartered Bank (Hong Kong) Ltd. as the Facility Agent. The full amount of the facility was drawn on March 10, 2008. The loan is payable over five years in ten equal semi-annual payments with final repayment on March 11, 2013. As at December 31, 2009, US$35 million (US$34.8 million, net of unamortized debt discount of US$0.2 million), or Php1,625 million (Php1,616 million, net of unamortized debt discount of Php9 million), remained outstanding.

On November 27, 2008, Smart signed a US$50 million five-year term loan facility to finance the Phase 10 GSM equipment and service contracts with Finnish Export Credit, Plc. The facility was awarded to ABN AMRO Bank N.V., Australia and New Zealand Banking Group Limited, Standard Chartered Bank, Mizuho Corporate Bank Ltd. as the Lead Arrangers. The loan is payable over five years in ten equal semi-annual installments with final repayment on January 23, 2014. The facility was initially drawn on January 23, 2009 in the amount of US$5 million and was subsequently fully drawn on May 5, 2009. As at December 31, 2009, US$45 million (US$44.3 million, net of unamortized debt discount of US$0.7 million), or Php2,089 million (Php2,058 million, net of unamortized debt discount of Php31 million), remained outstanding.

Other Term Loans

On July 1, 2004, CyMed availed itself of a five-year interest-bearing advance from an officer of CyMed to fund its operating expenses, including salaries and other incidental expenses. The outstanding balance of US$397 thousand, or Php19 million was paid in full on July 30, 2009.

On January 15, 2008, PLDT signed a US$100 million term loan facility agreement with Norddeutsche Landesbank Girozentrale Singapore Branch to be used for the capital expenditure requirements of PLDT. Two separate drawings of US$50 million each was drawn from the facility on March 27, 2008 and April 10, 2008 and this term loan is payable over five years in ten equal semi-annual installments with final repayment on March 27, 2013. As at December 31, 2009, US$70 million, or Php3,250 million, remained outstanding.

On July 15, 2008, PLDT signed a loan agreement amounting to US$50 million with Bank of the Philippine Islands to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on July 21, 2008 in the amount of US$15 million and the balance of US$35 million was drawn on September 30, 2008 and this loan is payable in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on July 22, 2013. As at December 31, 2009, US$44 million, or Php2,048 million, remained outstanding.

On September 24, 2008, BOW signed an Islamic finance facility agreement granted by the Bank of London and the Middle East for a total of US$19 million, which will mature from June 30, 2013 to September 30, 2014. As at December 31, 2009, US$4 million, or Php186 million, remained outstanding and the aggregate undrawn balance was US$15 million.

Satellite Acquisition Loans

Mabuhay Satellite had an Omnibus Credit and Security Agreement with a syndicate of local banks, or the Banks, which includes a term loan to Mabuhay Satellite which will mature on various dates from 2007 to 2009. In 2009, the outstanding balance of the term loan of US$13 million, or Php610 million, was fully paid.

Philippine Peso Debts:

Corporate Notes

Php5,000 Million Fixed Rate Corporate Notes

On February 15, 2007, Smart issued Php5,000 million fixed rate corporate notes, comprised of Series A five-year notes amounting to Php3,800 million and Series B ten-year notes amounting to Php1,200 million. Proceeds from the issuance of these notes have been used primarily for Smart's capital expenditures for network improvement and expansion. The amount of Php4,988 million (Php4,968 million, net of unamortized debt discount of Php20 million) remained outstanding as at December 31, 2009.

Php5,000 Million Fixed Rate Corporate Notes

On December 12, 2008, Smart issued a five-year term unsecured fixed rate corporate notes amounting to Php5,000 million. The facility has annual amortizations equivalent to 1% of the principal amount with the balance of 96% payable on December 13, 2013. Funds raised from the issuance of these notes were used primarily to finance Smart's capital expenditures for network upgrade and expansion. The amount of Php4,950 million (Php4,907 million, net of unamortized debt discount of Php43 million) remained outstanding as at December 31, 2009.

Php5,000 Million Fixed Rate Corporate Notes

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility will be used to finance capital expenditures of PLDT. The aggregate amount of Php5,000 million remained outstanding as at December 31, 2009.

Php3,000 Million Corporate Notes

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009 while the amount of Php1,000 of Series B2 notes was drawn on September 1, 2009. The aggregate amount of Php3,000 million (Php2,988 million, net of unamortized debt discount of Php12 million) remained outstanding as at December 31, 2009.

Php7,000 Million Fixed Rate Corporate Notes

On December 10, 2009, PLDT issued Php7,000 million fixed rate corporate notes under a Notes Facility Agreement dated December 8, 2009, comprised of Series A 5.25-year notes amounting to Php5,050 million, Series B seven-year notes amounting to Php850 million, and Series C ten-year notes amounting to Php1,100 million. Proceeds from the 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 aggregate amount of Php7,000 million remained outstanding as at December 31, 2009.

Term Loans

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On August 14, 2006, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company amounting to Php2,500 million to finance the related Phase 9 GSM facility. The facility is payable over five years in 18 equal quarterly installments commencing on the third quarter from initial drawdown date with final repayment on December 9, 2011. The facility was drawn on December 11, 2006. The outstanding balance of this loan as at December 31, 2009 amounted to Php1,111 million (Php1,109 million, net of unamortized debt discount of Php2 million).

Php400 Million and Php20 Million Refinancing Loans

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the ten-year note under the Php1,270 million Fixed Rate Corporate Notes which were repaid on June 12, 2007. Both refinancing loans will mature on June 12, 2014. The amounts of Php400 million and Php20 million remained outstanding as at December 31, 2009.

Php2,500 Million Term Loan Facility

On October 21, 2008, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php2,500 million, which was drawn in full on November 13, 2008. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on November 13, 2013. The amount of Php2,500 million (Php2,492 million, net of unamortized debt discount of Php8 million) remained outstanding as at December 31, 2009.

Php2,400 Million Term Loan Facility

On November 21, 2008, PLDT signed a loan agreement with Land Bank of the Philippines amounting to Php2,400 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 12, 2008 in the amount of Php500 million and the balance of Php1,900 million was subsequently drawn on May 20, 2009 and July 31, 2009 in two equal Php500 million tranches and on September 15, 2009 in the amount of Php900 million. The loan is payable over five years in ten equal semi-annual installments with final repayment on December 12, 2013. The total amount of Php2,044 million remained outstanding as at December 31, 2009.

Php3,000 Million Term Loan Facility

On November 26, 2008, PLDT signed a loan agreement with Union Bank of the Philippines amounting to Php3,000 million to finance capital expenditures and/or to refinance its loan obligations which were utilized for service improvements and expansion programs. The initial drawdown under this loan was made on December 22, 2008 in the amount of Php500 million and the balance of Php2,500 million was subsequently drawn on April 14, 2009. The loan is payable over five years in nine equal semi-annual installments commencing on the second semester from initial drawdown date with final repayment on December 23, 2013. The total amount of Php2,667 million remained outstanding as at December 31, 2009.

Php2,000 Million Term Loan Facility

On November 28, 2008, PLDT signed a loan agreement with Philippine National Bank amounting to Php2,000 million to be used for its capital expenditure requirements in connection with PLDT's service improvement and expansion programs. The initial drawdown under this loan was made on December 19, 2008 in the amount of Php500 million and the balance of Php1,500 million was subsequently drawn on January 30, 2009, February 27, 2009 and March 13, 2009 in three equal Php500 million tranches. The loan is payable over five years in 17 equal quarterly installments commencing on the fourth quarter from initial drawdown date with final repayment on December 19, 2013. The total amount of Php1,882 million remained outstanding as at December 31, 2009.

Php1,000 Million Term Loan Facility

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The first installment will commence on October 27, 2010 with final repayment on April 25, 2014. The amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

Php2,500 Million Term Loan Facility

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan is payable in full upon maturity on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at December 31, 2009.

Php1,500 Million Term Loan Facility

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures. The amount of Php1,500 million (Php1,491 million, net of unamortized debt discount of Php9 million) was fully drawn on May 20, 2009 and remained outstanding as at December 31, 2009. The facility is a three-year loan payable in full upon maturity on May 20, 2012.

Php1,000 Million Term Loan Facility

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014. The amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

Php1,000 Million Term Loan Facility

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 2, 2009. The facility is a seven-year loan, payable in full upon maturity on July 2, 2016. The amount of Php1,000 million (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at December 31, 2009.

Php2,500 Million Term Loan Facility

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable upon maturity on September 28, 2016. The amount of Php2,500 million was fully drawn on September 28, 2009 and remained outstanding as at December 31, 2009.

Php1,500 Million Term Loan Facility

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on September 15, 2014. The amount of Php1,500 million was fully drawn on September 15, 2009 and remained outstanding as at December 31, 2009.

Php500 Million Term Loan Facility

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on July 1, 2016. The amount of Php500 million was fully drawn on July 1, 2009 and remained outstanding as at December 31, 2009.

Php1,000 Million Term Loan Facility

On July 16, 2009, Smart signed a Philippine Peso term loan facility with Metropolitan Bank and Trust Company to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on August 3, 2009. The facility is payable over five years in 16 equal consecutive quarterly installments commencing on the fifth quarter from the date of the first drawdown with final repayment on August 1, 2014. The amount of Php1,000 million (Php996 million, net of unamortized debt discount of Php4 million) remained outstanding as at December 31, 2009.

Php2,000 Million Term Loan Facility

On September 18, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on October 27, 2014. The initial drawdown under this loan was made on October 26, 2009 in the amount of Php1,000 million and the balance of Php1,000 million was subsequently drawn on December 4, 2009. As at December 31, 2009, the outstanding balance of the loan was Php2,000 million.

Php1,000 Million Term Loan Facility

On November 23, 2009, PLDT signed a loan agreement with Bank of the Philippine Islands amounting to Php1,000 million to finance capital expenditures and/or refinance its obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments with final repayment on December 18, 2014. The amount of Php1,000 million was fully drawn on December 18, 2009 and remained outstanding as at December 31, 2009.

Secured Term Loans

Php150 Million Term Loan Facility

On June 7, 2007, BayanTrade obtained a medium term loan facility with Bank of the Philippine Islands amounting to Php150 million, which was fully availed of in December 2007. Each interest period will cover a 90-day period commencing on the initial drawdown date and the interest rate will be determined at the first day of each interest period and payable at the end of the interest period. The loan facility was obtained to facilitate the purchase of a subsidiary and to support its working capital requirements. The aggregate loan amount is due as follows: (a) 20% within the third year from first drawdown date; (b) 20% within the fourth year from first drawdown date; and (c) 60% within the fifth year from first drawdown date. BayanTrade is given a right to repay the principal and the interest accruing thereon on each interest payment date or interest rate setting date without any prepayment penalty. BayanTrade and the bank has agreed to the following terms: (a) pledge of BayanTrade's shares of stock of the subsidiary purchased at a collateral loan ratio of 2:1; (b) assignment of receivables at a collateral-to-loan of 2:1; and (c) negative pledge on other present and future assets of BayanTrade. As at December 31, 2009, the outstanding principal balance of the loan was Php139 million.

Php8 Million Term Loan Facility

On March 31, 2009, Level Up! secured a three-year loan facility with Asia United Bank amounting to Php8 million maturing on March 30, 2012. Principal is payable in twelve equal successive quarterly installments of Php673 thousand starting June 30, 2009 and every quarter thereafter. This loan has a floating interest rate payable every 30 days starting April 30, 2009. The loan is secured by the equipment where the proceeds of the loan were used. The amount of Php6 million remained outstanding as at December 31, 2009.

Notes Payable

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and remained outstanding as at December 31, 2009. Both tranches will mature on April 28, 2010.

As at December 31, 2009, SPi had an outstanding balance of short-term notes of US$6 million, or Php279 million which will mature on various dates from April 26, 2010 to June 4, 2010.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that require us to comply with specified financial ratios and other financial tests, calculated in conformity with PFRS at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expense. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 46% of PLDT's total consolidated debts as at December 31, 2009 was denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the Philippine peso.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) prepaying other debt; (c) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (d) creating any lien or security interest; (e) permitting set-off against amounts owed to PLDT; (f) merging or consolidating with any other company; (g) entering into transactions with stockholders and affiliates; and (h) entering into sale and leaseback transactions.

Further, 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.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults that will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the abandonment, termination or amendment of the project financed by a loan in a manner unacceptable to the lender; (f) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and (g) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. The financial tests under Smart's loan agreements include compliance with a consolidated debt to consolidated equity ratio of not more than 1.5:1.0, a consolidated debt to consolidated EBITDA ratio of not more than 3:1 and a debt service coverage ratio of not less than 1.5:1.0. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; and (c) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations or impair guarantors' ability to perform their obligations under its loan agreements.

As at December 31, 2009, we are in compliance with all of our debt covenants.

Obligations Under Finance Lease

The consolidated future minimum payments for finance leases as at December 31, 2009 are as follows:

Year	(in million pesos)
2010	53
2011	6
2012	5
2013 and onwards	3
Total minimum finance lease payments (Note 26)	67
Less amount representing interest	3
Present value of net minimum finance lease payments (Notes 3 and 28)	64
Less obligations under finance lease maturing within one year (Notes 9 and 28)	51
Long-term portion of obligations under finance lease (Notes 9 and 28)	13

Municipal Telephone Projects

As at December 31, 2009, PLDT had paid all of its obligations on the lease agreement (the "Financial Lease Agreement, or FLA") with the Philippine Department of Transportation and Communications, or DOTC, covering telecommunications facilities in the province of Batangas established under the Municipal Telephone Act. In 1993, under the FLA, PLDT was granted the exclusive right to provide telecommunications management services, to expand telecommunications services, and to promote the use of the DOTC contracted facilities in certain covered areas for a period of 15 years. Title to the telecommunications facilities/ properties has been transferred to PLDT as at December 31, 2009.

Piltel has an existing finance lease agreement for the Palawan Telecommunications System of the Municipal Telephone Project Office, or MTPO, with the DOTC. Presently, the 18 public calling office stations that were put up pursuant to the MTPO Contract are no longer working. The last payment by Piltel to the DOTC was in July 2000 and no payments have been made since. Piltel made several attempts to pre-terminate the MTPO Contract in letters to the DOTC where Piltel also manifested its willingness to discuss mutually beneficial compromise agreements for the pre-termination.

The DOTC denied Piltel's petition and reiterated a provision in the MTPO Contract that the pre-termination will result in the imposition of sanctions in the form of liquidated damages not exceeding Php23 million.

Piltel maintains that it had pre-terminated the MTPO Contract as early as 2003, and that the issue of Piltel's pre-termination of the MTPO Contract be referred for arbitrations in accordance with the provisions of the MTPO Contract.

On May 8, 2009, Piltel filed with the Philippine Dispute Resolution Center, Inc., or PDRCI, a Request for Arbitration against the DOTC for the PDRCI to commence the formation of the tribunal and such other procedures required under the PDRCI rules. In the Request for Arbitration, Piltel prayed for the following: (1) as interim relief: Ordering the DOTC to cease and desist from enforcing collection and charging additional interests and penalties against Piltel pending the resolution of the arbitration proceedings; and (2) as final relief: (a) ordering the suspension of the MTPO Contract; (b) ordering the termination of the MTPO Contract as at March 20, 2003 and holding Piltel free from any liability for non-performance of the obligations thereunder from March 20, 2003; and (c) ordering the DOTC to pay Piltel attorney's fees and the expenses and cost of arbitration.

The case is currently pending with the PDRCI. Piltel continues to receive Statements of Account from the DOTC, the latest of which is dated January 4, 2010, alleging an unpaid amount of Php38 million (inclusive of interest and penalty charges) as at December 31, 2009. The related finance lease obligation is classified as a current liability in our consolidated statement of financial position.

Other Long-term Finance Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and ePLDT have finance lease obligations in the aggregate amount of Php24 million and Php71 million as at December 31, 2009 and 2008, respectively, in respect of office equipment. See *Note 9 – Property, Plant and Equipment.*

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume or permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

Preferred Stock Subject to Mandatory Redemption

The movements of PLDT's preferred stock subject to mandatory redemption for December 31, 2009 and 2008 are as follows:

	2009			2008		
	Series V	**Series VI**	**Total**	Series V	Series VI	Total
	(in million pesos)					
Balance at beginning of year	**2**	**7**	**9**	49	966	1,015
Conversion (Note 29)	**(2)**	**(7)**	**(9)**	(50)	(1,027)	(1,077)
Accretion	**–**	**–**	**–**	3	36	39
Revaluation	**–**	**–**	**–**	–	32	32
Balance at end of year (Notes 26 and 28)	**–**	**–**	**–**	2	7	9

PLDT had issued 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001. As discussed below, as at December 31, 2006, all shares of Series VII Convertible Preferred Stock had been converted. Shares of Series V and VI Convertible Preferred Stock are entitled to receive annual dividends of Php18.70 per share and US$0.397 per share, respectively. Each share of Series V and VI Convertible Preferred Stock is convertible at any time at the option of the holder into one share of PLDT's common stock. Shares of Series V and VI Convertible Preferred Stock which are outstanding on the seventh anniversary of the issue date thereof will be mandatorily converted into shares of PLDT's common stock on the date immediately following such anniversary date. Under a put option exercisable for 30 days following the mandatory conversion, holders of shares of PLDT's common stock received on mandatory conversion of the shares of Series V and VI Convertible Preferred Stock will be able to require PLDT to purchase such shares of PLDT's common stock for Php1,700 per share and US$36.132 per share, respectively.

The Series V Convertible Preferred Stock was designated as a compound instrument consisting of liability and equity components. The fair value of the Series V Convertible Preferred Stock was determined on the issue date, of which the fair value of the liability component as at date of issuance is recorded as "Preferred stock subject to mandatory redemption" account and is included under the "Interest-bearing financial liabilities" in our consolidated statements of financial position. The residual amount was assigned as the equity component.

The cost of each foreign currency component of the Series VI Convertible Preferred Stock was designated as a debt instrument with embedded call options. The fair value of the Series VI Convertible Preferred Stock was determined on the issue date, of which the fair value of embedded call options was bifurcated and accounted for separately. The residual amount was assigned as a liability component and recorded as "Preferred stock subject to mandatory redemption" account and is included under the "Interest-bearing financial liabilities" in our consolidated statements of financial position. See *Note 28 – Financial Assets and Liabilities*.

The difference between the amount designated as liability components of the Series V and VI Convertible Preferred Stock at issue date and the aggregate redemption value is accreted over the period up to the put option date using the effective interest rate method. Accretions added to preferred stock subject to mandatory redemption and charged to interest for the years ended December 31, 2008 and 2007 amounted to Php39 million and Php141 million, respectively. There were no accretions added to preferred stock subject to mandatory redemption for the year ended December 31, 2009.

Preferred stock subject to mandatory redemption amounted to Php9 million as at December 31, 2008 after revaluation of Series VI Convertible Preferred Stock to the exchange rates at the end of the reporting periods and after giving effect to the above accretions, conversions and additional issuances. As at December 31, 2009 and 2008, 12 million shares each of the Series V, VI and VII Convertible Preferred Stock had been voluntarily and/or mandatorily converted into shares of PLDT's Common Stock. On June 5, 2008 (the "Mandatory Conversion Date"), PLDT's outstanding shares of Series V and VI Convertible Preferred Stock issued on June 4, 2001 were mandatorily converted into shares of Common Stock of PLDT at a ratio of 1:1. The remaining 122 shares of Series V Convertible Preferred Stock which were originally issued on August 22, 2002 were voluntarily converted into common shares on July 23, 2009, prior to the scheduled mandatory conversion on August 23, 2009. The remaining 4 thousand shares of Series VI Convertible Preferred Stock which were originally issued on November 8, 2002 were mandatorily converted into common shares on November 9, 2009. As at December 31, 2009, all of the 3 million shares, 5 million shares and 4 million shares of the Series V, VI and VII Convertible Preferred Stock, respectively, had been voluntarily and/or mandatorily converted into shares of PLDT's common stock. The redemption value of the outstanding shares of the Series V and VI Convertible Preferred Stock amounted to Php9 million as at December 31, 2008. See *Note 26 – Contractual Obligations and Commercial Commitments*.

The corresponding dividends on these shares charged as interest expense amounted to Php99 thousand, Php4 million and Php17 million for the years ended December 31, 2009, 2008 and 2007, respectively. See *Note 5 – Income and Expenses* and *Note 8 – Earnings Per Common Share*.

21. Deferred Credits and Other Noncurrent Liabilities

This account consists of:

	2009	2008
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**11,966**	8,650
Provision for asset retirement obligations (Notes 3 and 9)	**1,204**	1,100
Contingent consideration for business acquisitions – net of current portion (Notes 13, 14 and 23)	**1,193**	593
Unearned revenues (Note 23)	**66**	190
Others	**9**	49
	14,438	10,582

Accrual of capital expenditures under long-term financing represent expenditures related to the expansion and upgrade of our network facilities which are not due to be settled within one year. Such accruals are settled through refinancing from long-term loans obtained from the banks.

The following table summarizes all changes to the liabilities on asset retirement obligations as at December 31, 2009 and 2008:

	2009	2008
	(in million pesos)	
Provision for asset retirement obligations at beginning of year	**1,100**	952
Accretion expenses	**94**	85
Additional liability recognized during the year (Note 29)	**17**	70
Settlement of obligations	**(7)**	(7)
Provision for asset retirement obligations at end of year (Note 3)	**1,204**	1,100

Contingent Consideration for Business Acquisitions

Contingent consideration for business acquisitions were recognized in relation to SPi's acquisition cost of Springfield and Laguna Medical on April 12, 2007 and August 31, 2009, respectively. See *Note 2 – Summary of Significant Accounting Policies, Note 13 – Business Combinations and Acquisition of Non-Controlling Interests, Note 14 – Goodwill and Intangible Assets* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

SPi acquired 100% of Springfield plus contingent consideration with fair value at acquisition date of US$18 million, or Php894 million. As at December 31, 2009 and 2008, the adjusted fair value of contingent consideration, as revised after effecting adjustments on forecasted earn-out and accretion, amounted to US$20.5 million, or Php951 million, and US$15 million, or Php720 million, respectively. The effect of the adjustment on forecasted earn-out in the fair value of contingent consideration, which was recognized as goodwill adjustment, was an increase of US$3 million, or Php132 million, and a decrease of US$4 million, or Php162 million, for the years ended December 31, 2009 and 2008, respectively.

SPi acquired 80% of Laguna Medical with a mandatory Put-Call option for the right to call the remaining 20% of the outstanding common stock of Laguna Medical. The estimated fair value of the contingent consideration from the mandatory Put-Call option at the acquisition date amounted to US$5.4 million, or Php257 million. As at December 31, 2009, the adjusted fair value of contingent consideration after the accretion from August 31, 2009 to December 31, 2009, amounted to US$5.5 million, or Php256 million.

Movements in contingent consideration for business acquisitions are as follows:

	2009		2008	
	U.S. Dollar	**Php**	U.S. Dollar	Php
	(in millions)			
Balance at beginning of year	**15**	**720**	25	1,048
Business combinations (Note 13)	**8**	**389**	(4)	(162)
Accretion for the year	**3**	**142**	3	137
Payments	**–**	**(13)**	(9)	(379)
Translation	**–**	**(31)**	–	76
Balance at end of year	**26**	**1,207**	15	720
Less current portion of contingent consideration for business acquisitions (Note 23)	**–**	**14**	3	127
Noncurrent portion of contingent consideration for business acquisitions	**26**	**1,193**	12	593

22. Accounts Payable

This account consists of:

	2009	2008
	(in million pesos)	
Suppliers and contractors (Notes 26 and 28)	**14,975**	14,131
Carriers (Notes 26 and 28)	**1,937**	1,780
Taxes (Notes 27 and 28)	**1,894**	1,970
Related parties (Notes 24, 26 and 28)	**233**	120
Others	**562**	267
	19,601	18,268

23. Accrued Expenses and Other Current Liabilities

This account consists of:

	2009	2008
	(in million pesos)	
Accrued utilities and related expenses (Notes 24, 26 and 28)	**17,549**	13,504
Accrued employee benefits (Notes 3, 25, 26 and 28)	**8,074**	2,928
Unearned revenues (Note 21)	**4,588**	4,249
Accrued taxes and related expenses (Notes 26 and 27)	**1,941**	1,398
Accrued interests and other related costs (Notes 20, 26 and 28)	**1,167**	1,212
Installment payable for purchase of equity investment (Note 13)	**65**	–
Current portion of contingent consideration for business acquisitions (Notes 13, 14 and 21)	**14**	127
Others (Note 10)	**2,048**	963
	35,446	24,381

Unearned revenues represent advance payments for leased lines, installation fees, monthly service fees and unused and/or unexpired portion of prepaid loads.

24. Related Party Transactions

a. *Air Time Purchase Agreement between PLDT and AIL and Related Agreements*

Under the Founder NSP Air Time Purchase Agreement, or ATPA, entered into with AIL in March 1997, which was amended in December 1998 (as amended, the "Original ATPA"), PLDT was granted the exclusive right to sell AIL services, through ACeS Philippines, as national service provider, or NSP, in the Philippines. In exchange, the Original ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time (the "Minimum Air Time Purchase Obligation") annually over ten years commencing on January 1, 2002 (the "Minimum Purchase Period"), the purported date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue was less than US$45 million in any given year, the Original ATPA also required PLDT to make supplemental air time purchase payments not to exceed US$15 million per year during the Minimum Purchase Period (the "Supplemental Air Time Purchase Obligation").

On February 1, 2007, the parties to the Original ATPA entered into an amendment to the Original ATPA on substantially the terms attached to the term sheet negotiated with the relevant banks (the "Amended ATPA"). Under the Amended ATPA, the Minimum Air Time Purchase Obligation was amended and replaced in its entirety with an obligation of PLDT (the "Amended Minimum Air Time Purchase Obligation") to purchase from AIL a minimum of US$500 thousand worth of air time annually over a period ending upon the earlier of: (i) the expiration of the Minimum Purchase Period; and (ii) the date on which all indebtedness incurred by AIL to finance the AIL System is repaid. Furthermore, the Amended ATPA unconditionally released PLDT from any obligations arising out of or in connection with the Original ATPA prior to the date of the Amended ATPA, except for obligations to pay for billable units used prior to such date. Moreover, pursuant to a letter of confirmation, dated February 1, 2007, the banks released and discharged PLDT and ACeS Philippines and their respective subsidiaries from any and all obligations and liabilities under the Original ATPA and related agreements.

Moreover, in accordance with the above contractual arrangements, ACeS Philippines acquired: (i) from LMGT Holdings (ACeS), Inc., or LMGT, 50% of its equity interest in AIL for a consideration of US$0.75 million pursuant to a sale and purchase agreement entered into on February 1, 2007; and (ii) from Tera Global Investment Ltd., or TGIL, for a nominal consideration, 50% of TGIL's interest in a promissory note issued by AIL, or the Transferred AIL Note, which 50% interest represents an aggregate amount of US$44 million together with related security interests pursuant to a sale agreement entered into on February 1, 2007. Immediately thereafter, a portion of the Transferred AIL Note was converted into shares of AIL and the balance was converted into non-interest bearing convertible bonds of AIL. As a result of these transactions, ACeS Philippines' equity holdings in AIL increased from 20% in 2006 to 36.99% in 2007. See *Note 10 – Investments in Associates and Joint Ventures*.

Total fees under the Amended ATPA amounted to Php158 million, Php168 million and Php160 million for the years ended December 31, 2009, 2008 and 2007, respectively. As at December 31, 2009 and 2008, outstanding obligations of PLDT under the Amended ATPA amounted to Php114 million and Php170 million, respectively. See *Note 5 – Income and Expenses*.

b. Agreements between PLDT and certain subsidiaries with Meralco

In the ordinary course of business, Meralco provides electricity to PLDT and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to Php911 million for the period from July 15, 2009 (Piltel acquired 20% equity interest in Meralco) to December 31, 2009. As at December 31, 2009, outstanding utilities payable amounted to Php188 million.

PLDT and Smart entered into a Pole Attachment Contracts with Meralco, wherein PLDT and Smart shall lease Meralco's pole spaces for our cable network facilities to save us from the expenditures and burden of erecting and maintaining our own poles. Total fees under these contracts amounted to Php67 million for the period from July 15, 2009 to December 31, 2009. As at December 31, 2009, outstanding obligations under these contracts amounted to Php135 million.

c. Transactions with Major Stockholders, Directors and Officers

Material transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 are as follows:

1. *Cooperation Agreement with First Pacific and certain affiliates, or the FP Parties, NTT Communications and NTT DoCoMo*

   In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and NTT DoCoMo, the FP Parties, NTT Communications and NTT DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to NTT DoCoMo, including:

   - certain contractual veto rights over a number of major decisions or transactions; and

   - rights relating to the representation on the Board of Directors of PLDT and Smart, respectively, and any committees thereof.

   Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

   - *Restriction on Ownership of Shares of PLDT by NTT Communications and NTT DoCoMo.* Each of NTT Communications and NTT DoCoMo has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of the issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of the issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.

- *Limitation on Competition*. NTT Communications, NTT DoComo and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intend to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and NTT DoCoMo with the same opportunity to enter into such agreement with PLDT or Smart or any of Smart's subsidiaries, as the case may be.

- *Business Cooperation*. PLDT and NTT DoCoMo agreed in principle to collaborate with each other on the business development, roll-out and use of a W-CDMA mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will: (i) become a member of a strategic alliance group for international roaming and corporate sales and services; and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with NTT DoCoMo.

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

    1. NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the Board of Directors of each PLDT and Smart;

    2. PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;

    3. PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

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

    As at December 31, 2009, NTT Communications and NTT DoCoMo together beneficially owned approximately 21% of PLDT's outstanding common stock.

- *Change in Control*. Each of NTT Communications, NTT DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, NTT DoCoMo, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or acquires 30% or more of PLDT common shares then issued and outstanding from time to time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares who announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the Board of Directors of PLDT, as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not be reasonably satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed; or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the Board of Directors of PLDT has used reasonable efforts to discuss with NTT Communications and NTT DoCoMo in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, NTT DoCoMo or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

2. *Integrated i-mode Services Package Agreement between NTT DoCoMo and Smart*

An Integrated i-mode Services Package Agreement was entered into by Smart and NTT DoCoMo on February 15, 2006, under which NTT DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from NTT DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. There was no royalty fees for the year ended December 31, 2009 while total royalty fees charged to operations under this agreement amounted to Php55 million and Php88 million for the years ended December 31, 2008 and 2007, respectively. Smart has no outstanding obligation under this agreement as at December 31, 2009 and 2008.

3. *Advisory Service Agreement between NTT DoCoMo and PLDT*

An Advisory Services Agreement was entered into by NTT DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement dated January 31, 2006. Pursuant to the Advisory Services Agreement, NTT DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, this agreement governs the terms and conditions of the appointments of such key personnel and the corresponding fees related thereto. Total fees under this agreement amounted to Php75 million, Php76 million and Php73 million for the years ended December 31, 2009, 2008 and 2007, respectively. As at December 31, 2009 and 2008, outstanding liability of PLDT under this agreement amounted to Php6 million and Php7 million, respectively.

4. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003, March 31, 2005 and June 16, 2006, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets, and manages data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the trade name "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines;

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses; and

- *Service Agreement.* On February 1, 2008, PLDT entered into an agreement with NTT World Engineering Marine Corporation wherein the latter provides offshore submarine cable repair and other allied services for the maintenance of PLDT's domestic fiber optic network submerged plant.

Total fees under these agreements amounted to Php114 million, Php99 million and Php104 million for the years ended December 31, 2009, 2008 and 2007, respectively. As at December 31, 2009 and 2008, outstanding obligations of PLDT under these agreements amounted to Php39 million and Php11 million, respectively.

5. *Agreements between Smart and Asia Link B.V., or ALBV*

Smart has an existing Technical Assistance Agreement with ALBV, a subsidiary of the First Pacific Group. ALBV provides technical support services and assistance in the operations and maintenance of Smart's cellular business. The agreement, which upon its expiration on February 23, 2008 was renewed until February 23, 2012 and is subject to further renewal upon mutual agreement of the parties, provides for payment of technical service fees equivalent to 1% of the consolidated net revenues of Smart. Total service fees charged to operations under this agreement amounted to Php634 million, Php630 million and Php656 million for the years ended December 31, 2009, 2008 and 2007, respectively. As at December 31, 2009 and 2008, outstanding obligations of Smart under this agreement amounted to Php188 million and Php8 million, respectively.

6. *Agreements Relating to Insurance Companies*

Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php404 million, Php419 million and Php339 million for the years ended December 31, 2009, 2008 and 2007, respectively. Two directors of PLDT have direct/indirect interests in or serve as a director/officer of Gotuaco and Malayan.

Compensation of Key Officers of the PLDT Group

The compensation of key officers of the PLDT Group by benefit type is as follows:

	2009	2008	2007
		(in million pesos)	
Short-term employee benefits	**593**	498	549
Share-based payments (Note 25)	**418**	233	299
Post-employment benefits (Note 25)	**33**	24	58
Total compensation paid to key officers of the PLDT Group	**1,044**	755	906

In 2008, each of the directors, including the members of the advisory board of PLDT, is entitled to a director's fee in the amount of Php125 thousand for each meeting of the board attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php50 thousand for each committee meeting attended.

On January 27, 2009, the Board of Directors of PLDT approved the increase in director's fee to Php200 thousand for board meeting attendance and to Php75 thousand for Board Committee meeting attendance. The director's fee was last adjusted in July 1998.

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.

25. Share-based Payments and Employee Benefits

Executive Stock Option Plan, or ESOP

On April 27, 1999 and December 10, 1999, the Board of Directors and stockholders, respectively, approved the establishment of an ESOP and the amendment of the Seventh Article of the Articles of Incorporation of PLDT denying the pre-emptive right of holders of common stock to subscribe for any issue of up to approximately 1 million common stock pursuant to the ESOP. The ESOP covers management executives, which include officers with rank of Vice-President up to the President, executives with the rank of Manager up to Assistant Vice-President, and advisors/consultants engaged by PLDT. The ESOP seeks to motivate option holders to achieve PLDT's goals, reward option holders for the creation of shareholder value, align the option holders' interests with those of the stockholders of PLDT, and retain the option holders to serve the long-term interests of PLDT. The ESOP is administered by the Executive Compensation Committee of the Board of Directors. About 1.3 million shares of common stock of PLDT were reserved as underlying option shares under the ESOP in 1999.

Movements in the number of stock options outstanding under the ESOP are as follows:

	2009	2008
	(in million pesos)	
Balance at beginning of year	**18,341**	26,758
Exercised shares	**(18,340)**	(8,417)
Forfeiture	**(1)**	–
Balance at end of year	**–**	18,341

As at December 31, 2009, a total of 870 thousand shares were acquired by certain officers and executives who exercised their options, at an exercise price of Php814 per share.

The fair value of the ESOP was estimated at the date of grant using an option pricing model, which considered annual stock volatility, risk-free interest rate, expected life of the option, exercise price of Php814 per share, and a weighted average price of Php870 and Php315 per share for the 1999 and 2002 grants, respectively, as at valuation date. Share options became fully vested in 2004. Total fair value of shares granted amounted to Php359 million as at December 31, 2009.

LTIP

On August 3, 2004, PLDT's Board of Directors approved the establishment of a Long-term Incentive Plan, or Original LTIP, for eligible key executive officers and advisors of PLDT and its subsidiaries, which is administered by the Executive Compensation Committee. The Original LTIP was a four-year cash-settled share-based plan covering the period from January 1, 2004 to December 31, 2007, or the Performance Cycle. The payment was intended to be made at the end of the 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 Performance Cycle and a cumulative consolidated net income target for the Performance Cycle.

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, a new LTIP, or New LTIP, upon endorsement of the Executive Compensation Committee, was approved by the Board of Directors to cover the period from January 1, 2007 to December 31, 2009, or the New Performance Cycle. As a result of the establishment of the New LTIP, the Board of Directors also approved the early vesting of the Original LTIP by the end of 2006 for those of its participants who were invited and chose to join the New LTIP. Participants in the Original LTIP who were not invited to join the New LTIP, or who were invited but chose not to join, remained subject to the Original LTIP and its original vesting schedule.

The total number of SARs awarded under the New LTIP as at December 31, 2009 was approximately 4 million shares which will be paid in 2010.

The fair value of the New LTIP was estimated using an option pricing model, which considered annual stock volatility, risk-free interest rates, dividends yield, the remaining life of options and share price of Php2,237. The computed incentive cost per share based on the option pricing level is Php960 as at December 31, 2008. The strike price as at December 31, 2009, which is the end of the Performance Cycle, is Php2,620. The value of the reward to be settled in 2010 and accrued as at December 31, 2009, was computed in accordance with the formula prescribed in LTIP, subject to the minimum and maximum award level to be granted, following the terms and formula as described therein. Cost per share as at December 31, 2009 amounted to Php1,029 which was based on the computed minimum award level. The fair value of the LTIP recognized as expense for the years ended December 31, 2009, 2008 and 2007 amounted to Php1,833 million, Php1,281 million and Php1,448 million, respectively. As at December 31, 2009 and 2008, outstanding LTIP liability amounted to Php4,582 million and Php2,749 million, respectively. See *Note 3 – Management's Use of Judgments, Estimates and Assumptions, Note 5 – Income and Expenses, Note 23 – Accrued Expenses and Other Current Liabilities* and *Note 26 – Contractual Obligations and Commercial Commitments*.

Pension

Defined Benefit Pension Plans

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

Our actuarial valuation is performed at the end of each reporting period. The accrued (prepaid) benefit costs and net periodic benefit costs as at and for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
		(in million pesos)	
Change in present value of defined benefit obligations:			
Present value of defined benefit obligations at beginning of year	**10,917**	10,160	13,314
Interest costs	**1,193**	834	996
Current service costs	**643**	600	777
Actuarial losses (gains) on obligations	**4,720**	(101)	(4,788)
Liabilities of newly acquired subsidiaries	**19**	–	–
Actual benefits paid	**(93)**	(576)	(566)
Curtailment	**–**	–	427
Present value of defined benefit obligations at end of year	**17,399**	10,917	10,160
Change in plan assets:			
Fair value of plan assets at beginning of year	**7,168**	8,519	5,768
Actual contributions	**8,866**	914	1,515
Expected return on plan assets	**673**	865	644
Actual benefits paid	**(93)**	(576)	(566)
Actuarial gains (losses) on plan assets	**3,366**	(2,554)	1,158
Fair value of plan assets at end of year	**19,980**	7,168	8,519
Unfunded (surplus) status – net	**(2,581)**	3,749	1,641
Unrecognized net actuarial gains (losses) (Note 3)	**(2,474)**	(1,126)	1,344
	(5,055)	2,623	2,985
Accrued benefit costs (Note 3)	**359**	2,623	2,985
Prepaid benefit costs (Notes 3 and 18)	**5,414**	–	–
Components of net periodic benefit costs:			
Interest costs	**1,193**	834	996
Current service costs	**643**	600	777
Net actuarial losses (gains) recognized for the year	**(3)**	(11)	78
Expected return on plan assets	**(673)**	(865)	(644)
Curtailment loss	**–**	–	427
Amortizations of unrecognized net transition obligation	**–**	–	1
Net periodic benefit costs (Notes 3 and 5)	**1,160**	558	1,635

Actual return on plan assets amounted to gain of Php4,036 million and Php1,801 million for the years ended December 31, 2009 and 2007, respectively, and loss of Php1,690 million for the year ended December 31, 2008.

The weighted average assumptions used to determine pension benefits as at December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Average remaining working years of covered employee	**18**	20	21
Expected rate of return on plan assets	**12%**	9%	10%
Discount rate	**9%**	11%	8%
Rate of increase in compensation	**9%**	10%	7%

We have adopted mortality rates in accordance with the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

As at December 31, 2009 and 2008, the assets of the beneficial trust fund established for PLDT's pension plan include investments in shares of stocks of PLDT and Piltel with total fair values aggregating Php430 million and Php1,935 million, respectively, which represent about 2% and 27%, respectively, of such beneficial trust fund's assets available for plan benefits.

The Board of Trustees of the beneficial trust fund uses an investment approach of mixed equity and fixed income investments to maximize the long-term expected return of plan assets. The investment portfolio has been structured to achieve the objective of regular income with capital growth and out-performance of benchmarks. A majority of the investment portfolio consists of various equity securities and fixed income debt securities, while the remaining portion consists of multi-currency investments.

The allocation of the fair value of the beneficial trust fund's assets for the PLDT pension plan as at December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Investments in listed and unlisted equity securities	**78%**	51%	60%
Investments in debt and fixed income securities	**9%**	27%	21%
Investments in temporary placements	**7%**	8%	5%
Investments in real estate	**5%**	9%	8%
Investments in mutual funds	**1%**	5%	6%
	100%	100%	100%

Total contribution of PLDT to the pension plan for the years ended December 31, 2009, 2008 and 2007 amounted to Php8,848 million, Php914 million and Php1,514 million, respectively. The Php8,848 million contribution to the benefit trust fund in 2009 was used to invest in various listed and unlisted equity securities. As a result of the contributions in 2009, PLDT expects substantial reduction in net periodic benefit costs moving forward. In addition, PLDT does not expect to make contributions to the beneficial trust fund in the next few years.

Defined Contribution Plan

Smart and I-Contacts contributions to the plan are made based on the employee's years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the employee's years of tenure. Although the plan has a defined contribution format, Smart and I-Contacts regularly monitor compliance with R.A. 7641, otherwise known as "The Retirement Pay Law". As at December 31, 2009 and 2008, Smart and I-Contacts were in compliance with the requirements of R.A. 7641.

The plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for debt and fixed income securities while 10% to 40% is allotted to equity securities.

The allocation of the fair value of the beneficial trust fund's assets for Smart and I-Contacts pension plan as at December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Investments in debt and fixed income securities	**61%**	68%	57%
Investments in listed and unlisted equity securities	**34%**	23%	35%
Others	**5%**	9%	8%
	100%	100%	100%

Smart and I-Contacts currently expect to make approximately Php190 million of cash contributions to their pension plans in 2010.

Pension Benefit Costs

Total consolidated pension benefit costs is as follows:

	2009	2008	2007
		(in million pesos)	
Expense recognized for defined benefit plans	**1,160**	558	1,635
Expense recognized for defined contribution plans	**146**	167	138
Total expense recognized for consolidated pension benefit costs (Notes 3 and 5)	**1,306**	725	1,773

26. Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual undiscounted obligations outstanding as at December 31, 2009 and 2008:

		Payments Due by Period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in million pesos)		
December 31, 2009					
Debt(1):	*130,075*	*5,241*	*56,398*	*38,073*	*30,363*
Principal	102,587	4,876	40,226	31,953	25,532
Interest	27,488	365	16,172	6,120	4,831
Lease obligations:	*7,564*	*3,778*	*1,956*	*994*	*836*
Operating lease	7,497	3,730	1,940	991	836
Finance lease	67	48	16	3	–
Unconditional purchase obligations(2)	*834*	*137*	*279*	*279*	*139*
Other obligations:	*64,456*	*44,322*	*15,528*	*826*	*3,780*
Derivative financial liabilities(3):	4,759	–	2,153	789	1,817
Long-term currency swaps	4,759	–	2,153	789	1,817
Various trade and other obligations:	59,697	44,322	13,375	37	1,963
Suppliers and contractors	26,941	14,975	11,966	–	–
Utilities and related expenses	14,737	14,687	18	5	27
Employee benefits	8,082	8,082	–	–	–
Customers' deposits	2,166	–	198	32	1,936
Carriers	1,937	1,937	–	–	–
Dividends	1,749	1,749	–	–	–
Others	4,085	2,892	1,193	–	–
Total contractual obligations	**202,929**	**53,478**	**74,161**	**40,172**	**35,118**
December 31, 2008					
Debt(1):	*99,915*	*8,201*	*31,500*	*26,744*	*33,470*
Principal	78,486	7,629	19,916	21,978	28,963
Interest	21,429	572	11,584	4,766	4,507
Lease obligations:	*7,235*	*2,727*	*1,608*	*1,265*	*1,635*
Operating lease	7,164	2,667	1,601	1,261	1,635
Finance lease	71	60	7	4	–
Unconditional purchase obligations(2)	*762*	*24*	*167*	*286*	*285*
Other obligations:	*50,815*	*33,162*	*11,630*	*1,816*	*4,207*
Mandatory conversion and purchase of shares	9	9	–	–	–
Derivative financial liabilities(3):	6,207	108	2,003	1,768	2,328
Long-term currency swaps	6,099	–	2,003	1,768	2,328
Forward foreign exchange contracts	69	69	–	–	–
Long-term foreign currency options	39	39	–	–	–

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(in million pesos)			
Various trade and other obligations:	44,599	33,045	9,627	48	1,879
Suppliers and contractors	22,781	14,131	8,650	–	–
Utilities and related expenses	11,376	11,346	27	1	2
Employee benefits	2,925	2,925	–	–	–
Customers' deposits	2,251	–	327	47	1,877
Carriers	1,780	1,780	–	–	–
Dividends	1,379	1,379	–	–	–
Others	2,107	1,484	623	–	–
Total contractual obligations	**158,727**	**44,114**	**44,905**	**30,111**	**39,597**

(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.*

Long-term Debt

See *Note 20 – Interest-bearing Financial Liabilities* for a detailed discussion of our long-term debt.

Operating Lease Obligations

Agreement for Space Segment Services with ProtoStar

On September 16, 2008, PLDT entered into a Space Segment Services Agreement with ProtoStar pursuant to which ProtoStar is required to make available to PLDT space segment services relating to a customized payload on the ProtoStar I satellite consisting of four 36 MHz non-preemptive C-band transponders and one additional non-preemptive extended C-band transponder for a total consideration of US$1.1 million per quarter. The term of the agreement will commence on January 1, 2011, or such earlier or later date as may be mutually agreed by both parties and unless previously terminated will continue for a period of seven years thereafter. As at December 31, 2008, the contractual obligations of PLDT under this agreement amounted to approximately Php1,468 million. On May 15, 2009, PLDT formally advised ProtoStar that it will not exercise its option to purchase ProtoStar's Series C Preferred Shares and that it has elected to apply the US$27.5 million as Priority Deposit under the Space Segment Services Agreement, which amount is deemed as full prepayment of the space segment services under said agreement. On July 29, 2009, ProtoStar and its five affiliates filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. The cases are pending before the United States Bankruptcy Court for the District of Delaware. PLDT is actively participating in the ProtoStar bankruptcy cases through a legal counsel to preserve the value of its prepayment. An auction of ProtoStar's ProtoStar I satellite was held in October 2009 and of ProtoStar's ProtoStar II satellite in December 2009, the proceeds of which are to be distributed first to ProtoStar's secured lenders and the balance, if any, to its unsecured lenders, once the bankruptcy court has finally determined over the objection and challenge of the unsecured lenders, that the secured lenders have perfected their security over said assets and are entitled to priority in payment. On this basis, we recognized a full impairment provision of US$27.5 million, or Php1,304 million, in 2009 with respect to our prepayments on the Space Segment Services. See *Note 18 – Prepayments*.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius

PLDT entered into a license agreement with Mobius pursuant to which Mobius granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, PLDT may purchase maintenance services for a fee of 15% of the current published license fee. As at December 31, 2009 and 2008, PLDT's aggregate remaining obligations under these agreement amounted to approximately Php40 million and Php20 million, respectively.

Other Operating Lease Obligations

The PLDT Group has various lease contracts for periods ranging from one to ten years covering certain offices, warehouses, cell sites telecommunications equipment locations and various office equipment amounting to Php7,457 million and Php5,676 million as at December 31, 2009 and 2008, respectively.

Finance Lease Obligations

See *Note 20 – Interest-bearing Financial Liabilities* for the detailed discussion of our long-term finance lease obligations.

Unconditional Purchase Obligations

See *Note 24 – Related Party Transactions* for a detailed discussion of PLDT's obligation under the Original ATPA and the Amended ATPA.

As at December 31, 2009 and 2008, PLDT's aggregate remaining minimum obligation under the Amended ATPA is approximately Php834 million and Php762 million, respectively.

Other Obligations

Mandatory Conversion and Purchase of Shares

As discussed in *Note 20 – Interest-bearing Financial Liabilities*, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001. As at December 31, 2009, all of the 3 million shares, 5 million shares and 4 million shares of the Series V, VI and VII Convertible Preferred Stock, respectively, had been voluntarily and/or mandatorily converted into shares of PLDT's common stock. See *Note 20 – Interest-bearing Financial Liabilities*.

Derivative Financial Liabilities

See *Note 28 – Financial Assets and Liabilities* for the detailed discussion of our derivative financial liabilities.

Various Trade and Other Obligations

PLDT Group has various obligations to suppliers for the acquisition of phone and network equipment, contractors for services rendered on various projects, foreign administrations and domestic carriers for the access charges, shareholders for unpaid dividends distributions, employees for benefits related obligations, and various business and operational related agreements. As at December 31, 2009 and 2008, total obligations under these various agreements amounted to approximately Php59,697 million and Php44,599 million, respectively. See *Note 22 – Accounts Payable* and *Note 23 – Accrued Expenses and Other Current Liabilities*.

Commercial Commitments

As at December 31, 2009 and 2008, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,317 million and Php1,634 million, respectively. These commitments will expire within one year.

See *Note 28 – Financial Assets and Liabilities* for discussion of Liquidity Risk Management.

27. Provisions and Contingencies

NTC Supervision and Regulation Fees, or SRF

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's 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, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT in February 2008, the NTC assessed the total amount of SRF due from PLDT to be Php2,870 million. On April 3, 2008, PLDT complied with the Supreme Court resolution by paying the outstanding principal amount relating to SRF on stock dividends in the amount of Php455 million to the NTC. PLDT protested and disputed NTC's assessments in the total amount of Php2,870 million which included penalties and NTC's computation thereof which PLDT believes is contrary to applicable laws and without any legal basis. In letters dated April 14, 2008 and June 18, 2008, the NTC demanded for payment of the balance of their 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 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. On September 8, 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment on the Petition. On September 22, 2008, PLDT filed its Reply (To the Comment of the NTC).

On January 26, 2010, the Supreme Court issued a resolution directing the parties to submit their respective memoranda within 15 days from notice thereof. PLDT received the said resolution on February 2, 2010. Hence, PLDT had 15 days from receipt of the January 26, 2010 resolution, or until February 17, 2010, within which to submit its memorandum. On February 17, 2010, PLDT filed a motion asking for an additional three days to file its memorandum. On February 18, 2010, PLDT filed its memorandum. As at March 4, 2010, PLDT has not yet received the memorandum of the NTC. With the submission of the parties' respective memoranda, the petition will be deemed submitted for resolution.

PLDT's Local Business and Franchise Tax Assessments

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082.

PLDT believes that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, PLDT has paid as at December 31, 2009 a total amount of Php860 million for local franchise tax covering prior periods up to December 31, 2009. As at December 31, 2009, PLDT has no contested assessments of LGUs for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction.

However, PLDT continues to contest the imposition of local business taxes in addition to local franchise tax by the Cities of Tuguegarao, Caloocan and Lucena in the amounts of Php1.9 million, Php6.2 million and Php4.0 million, respectively, for the years 1998 to 2003 for the City of Tuguegarao, for the year 2007 for the City of Caloocan and for the years 2004 to 2009 for the City of Lucena. In the case against the City of Tuguegarao, the Regional Trial Court, or RTC, rendered a decision stating that the City of Tuguegarao cannot impose local business tax on PLDT, there being no ordinance enacted for that purpose. The City of Tuguegarao has filed a Motion for Reconsideration which was denied by the court in its Order dated March 2, 2009. The City of Tuguegarao has filed a Notice of Appeal before the Court of Appeals. PLDT intends to file a motion to dismiss the said appeal on the ground of lack of jurisdiction. The appeal should have been filed before the Court of Tax Appeals and not with the Court of Appeals. In relation to the case against Caloocan City, the parties have entered into a compromise agreement during mediation which has been submitted to the court for its approval. The case against Lucena City was filed last June 18, 2009 and the parties are currently undergoing mediation process. Further to these cases, PLDT is also contesting the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction specifically that of the City of Tuguegarao, in the amount of Php3 million for the years 1999 to 2006. The RTC in its decision dated February 25, 2009, ruled in favor of PLDT stating that the Province of Cagayan can no longer tax PLDT for transactions taking place in the City of Tuguegarao. The Province of Cagayan filed a Motion for Reconsideration which was denied by the RTC in its Order dated October 7, 2009. The Province of Cagayan filed a Motion for Extension of Time to file Petition for Review before the Court of Tax Appeals which PLDT opposed for having been filed out of time.

Smart's Local Franchise Tax Assessments

In *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 and 02-725, August 3, 2004), the deficiency local franchise tax assessment issued against Smart by the City of Makati totaling approximately Php312 million, inclusive of surcharges and interests, covering the years 1995 and 1998 to 2001 had been ordered cancelled by the RTC of Makati City. This was upheld by the Court of Appeals in its Resolution dated June 9, 2005 (CA G.R. SP No. 88681, June 9, 2005). The Court's Decision declaring Smart as exempt from paying local franchise tax had become final and executory.

In a letter dated March 24, 2008, the City of Makati requested payment for alleged deficiency local franchise tax covering the years 1995 and 1997 to 2003. Smart replied and reiterated its exemption from local franchise tax based on its legislative franchise and the *Smart vs. City of Makati* case, which covered the years 1995 and 1998 to 2001. On March 9, 2009, Smart received another letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, Smart received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1995 to 2003. On December 16, 2009, Smart filed its reply and refuted the alleged franchise tax liability based on the *Smart vs. City of Makati* case and BOI registration dated May 3, 2001.

Meanwhile, Smart also received similar local franchise tax assessments issued by the City of Iloilo amounting to approximately Php0.7 million, inclusive of surcharge and penalties. The RTC of Iloilo likewise ruled in favor of Smart in its Decision dated January 19, 2005 (Civil Case No. 02-27144) declaring Smart as exempt from payment of local franchise tax. The City of Iloilo appealed the Decision and the Supreme Court, on February 27, 2009, (G.R. No. 167260) ruled that Smart is liable to pay the local franchise tax. On April 2, 2009, Smart filed its Motion for Reconsideration. On July 1, 2009, the Supreme Court's Special Second Division issued a Resolution denying Smart's Motion for Reconsideration.

In 2002, Smart filed a special civil action for declaratory relief for the ascertainment of its rights and obligations under the Tax Code of the City of Davao. The relevant section of Smart's franchise provided that the grantee shall pay a franchise tax equivalent to 3% of all gross receipts of the business transacted under the franchise by the grantee and the said percentage shall be in lieu of all taxes on the franchise or earnings thereof. On September 16, 2008, the Supreme Court's Third Division ruled that Smart is liable for local franchise tax since the phrase *"in lieu of all taxes"* merely covers national taxes and was rendered inoperative when the VAT law took effect. On October 21, 2008, Smart filed its Motion for Reconsideration. Smart argued that the operative word in the *"in lieu of all taxes"* clause in Smart's franchise is the word *"all"*. The word *"all"* before *"taxes"* in the clause *"in lieu of all taxes"* covers all kinds of taxes, national and local, except only those mentioned in the franchise. Smart also argued that the BIR already clarified in its Revenue Memorandum Circular No. 5-96 dated March 31, 1997 that the VAT merely replaced the franchise tax. On July 21, 2009, the Supreme Court's Third Division promulgated its Resolution denying Smart's Motion for Reconsideration and affirming that Smart is liable to pay local franchise tax.

With the finality of the Iloilo and Davao cases, several cities and provinces have began discussions with Smart on the settlement of alleged local franchise tax within their respective jurisdictions. To limit the years covered by Smart's tax liability, Smart is invoking its BOI registration issued on May 3, 2001.

Smart's Local Business Tax

The City of Makati issued a Notice of Assessment dated October 23, 2008 against Smart for alleged deficiency local business taxes, fees and charges covering the years 2006 to 2008. Smart protested the assessment and clarified that the local business tax assessment on its service revenues from its telecommunications services is misplaced. Smart explained that the service revenues are revenues directly generated by Smart from rendering telecommunications services pursuant to its legislative franchise. In the *Smart vs. City of Makati* case, the Court already ruled that its service revenues are exempt from the local franchise tax.

Piltel's Local Franchise Tax

In 2004, Piltel secured a favorable decision from a Trial Court involving the local franchise tax in Makati City. In the case entitled *"Pilipino Telephone Corporation vs. City of Makati and Andrea Pacita S. Guinto" (Piltel vs. City of Makati)* (Civil Case No. 01-1760), the Makati Regional Trial Court rendered its Decision dated December 10, 2002 declaring Piltel exempt from the payment of local franchise and business taxes. The Trial Court ruled that the legislative franchise of Piltel, R.A. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the Local Government Code which removed all prior tax exemptions granted by law or other special law. The Trial Court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise of the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, Piltel received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995 to 2009. In November 2009, Piltel received a Billing Statement from the City of Makati for alleged franchise tax liability covering the period from 1999 to 2003. On December 16, 2009, Piltel filed its reply and refuted the alleged franchise tax liability based on the *Piltel vs. City of Makati* case.

Real Property Tax

In *Smart Communications, Inc. vs. Central Board of Assessment Appeals, or CBAA, Local Board of Assessment Appeals of Surigao City, and City Assessor of Surigao City*, Smart filed a Petition for Review with the Court of Appeals assailing the prior decision of the CBAA which declared Smart as being liable to pay real property taxes to the City of Surigao. The Court of Appeals on November 26, 2008 decided that Smart is exempt from the payment of real property taxes for its properties which are actually, directly and exclusively used in the operation of its franchise.

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 simply 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. At the moment, however, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

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

28. Financial Assets and Liabilities

We have various financial assets such as trade and non-trade receivables and cash and short-term deposits, which arise directly from our operations. Our principal financial liabilities, other than derivatives, comprise of bank loans and overdrafts, convertible preferred stock, finance leases, trade and non-trade payables. The main purpose of these financial liabilities is to finance our operations. We also enter into derivative transactions, primarily principal only currency swap agreements, currency options, interest rate swaps and forward foreign exchange contracts to manage the currency and interest rate risks arising from our operations and sources of financing. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies*.

The following table sets forth our financial assets and financial liabilities as at December 31, 2009 and 2008.

	Loans and receivables	Held-to-maturity investments	Designated at fair value through profit or loss	Held-for-trading	Available-for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
					(in million pesos)				
Assets as at December 31, 2009									
Noncurrent:									
Property, plant and equipment	–	–	–	–	–	–	–	161,256	161,256
Investments in associates and joint ventures	–	–	–	–	–	–	–	22,233	22,233
Available-for-sale financial assets	–	–	–	–	134	–	134	–	134
Investment in debt securities	–	462	–	–	–	–	462	–	462
Investment properties	–	–	–	–	–	–	–	1,210	1,210
Goodwill and intangible assets – net	–	–	–	–	–	–	–	13,024	13,024
Deferred income tax assets – net	–	–	–	–	–	–	–	7,721	7,721
Prepayments – net of current portion	–	–	–	–	–	–	–	8,663	8,663
Advances and refundable deposits – net of current portion	842	–	–	–	–	–	842	260	1,102
Current:									
Cash and cash equivalents	38,319	–	–	–	–	–	38,319	–	38,319
Short-term investments	3,338	–	–	486	–	–	3,824	–	3,824
Trade and other receivables – net	14,729	–	–	–	–	–	14,729	–	14,729
Inventories and supplies	–	–	–	–	–	–	–	2,165	2,165
Derivative financial assets	–	–	–	6	–	–	6	–	6
Current portion of prepayments	–	–	–	–	–	–	–	5,098	5,098
Current portion of advances and refundable deposits	7	–	–	–	–	–	7	195	202
Total assets	57,235	462	–	492	134	–	58,323	221,825	280,148
Liabilities as at December 31, 2009									
Noncurrent:									
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	86,079	86,079	–	86,079
Deferred income tax liabilities – net	–	–	–	–	–	–	–	1,321	1,321
Derivative financial liabilities	–	–	–	2,751	–	–	2,751	–	2,751
Pension and other employee benefits	–	–	–	–	–	–	–	374	374
Customers' deposits	–	–	–	–	–	2,166	2,166	–	2,166
Deferred credits and other noncurrent liabilities	–	–	–	–	–	13,159	13,159	1,279	14,438
Current:									
Accounts payable	–	–	–	–	–	17,698	17,698	1,903	19,601
Accrued expenses and other current liabilities	–	–	–	–	–	28,687	28,687	6,759	35,446
Provision for assessments	–	–	–	–	–	–	–	1,555	1,555
Current portion of interest-bearing financial liabilities	–	–	–	–	–	12,714	12,714	–	12,714
Dividends payable	–	–	–	–	–	1,749	1,749	–	1,749
Income tax payable	–	–	–	–	–	–	–	2,829	2,829
Total liabilities	–	–	–	2,751	–	162,252	165,003	16,020	181,023
Net assets (liabilities)	**57,235**	**462**	**–**	**(2,259)**	**134**	**(162,252)**	**(106,680)**	**205,805**	**99,125**
Assets as at December 31, 2008									
Noncurrent:									
Property, plant and equipment	–	–	–	–	–	–	–	160,326	160,326
Investments in associates and joint ventures	–	–	–	–	–	–	–	1,174	1,174
Available-for-sale financial assets	–	–	–	–	131	–	131	–	131
Investment in debt securities – net of current portion	–	442	193	–	–	–	635	–	635
Investment properties	–	–	–	–	–	–	–	617	617

	Loans and receivables	Held-to-maturity investments	Designated at fair value through profit or loss	Held-for-trading	Available-for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non-financial assets and liabilities	Total
					(in million pesos)				
Goodwill and intangible assets – net	–	–	–	–	–	–	–	10,450	10,450
Deferred income tax assets – net	–	–	–	–	–	–	–	9,605	9,605
Prepayments – net of current portion	–	–	–	–	–	–	–	2,501	2,501
Advances and refundable deposits – net of current portion	840	–	–	–	–	–	840	246	1,086
Current:									
Cash and cash equivalents	33,684	–	–	–	–	–	33,684	–	33,684
Short-term investments	5,964	–	–	706	–	–	6,670	–	6,670
Current portion of investment in debt securities	–	1,656	–	–	–	–	1,656	–	1,656
Trade and other receivables – net	15,909	–	–	–	–	–	15,909	–	15,909
Inventories and supplies	–	–	–	–	–	–	–	2,069	2,069
Derivative financial assets	–	–	–	56	–	–	56	–	56
Current portion of prepayments	–	–	–	–	–	–	–	4,164	4,164
Current portion of advances and refundable deposits	–	–	–	–	–	–	–	1,825	1,825
Total assets	56,397	2,098	193	762	131	–	59,581	192,977	252,558
Liabilities as at December 31, 2008									
Noncurrent:									
Interest-bearing financial liabilities – net of current portion	–	–	–	–	–	58,910	58,910	–	58,910
Deferred income tax liabilities – net	–	–	–	–	–	–	–	1,288	1,288
Derivative financial liabilities	–	–	–	1,761	–	–	1,761	–	1,761
Pension and other employee benefits	–	–	–	–	–	–	–	5,467	5,467
Customers' deposits	–	–	–	–	–	2,251	2,251	–	2,251
Deferred credits and other noncurrent liabilities	–	–	–	–	–	9,273	9,273	1,309	10,582
Current:									
Accounts payable	–	–	–	–	–	16,294	16,294	1,974	18,268
Accrued expenses and other current liabilities	–	–	–	–	–	18,612	18,612	5,769	24,381
Derivative financial liabilities	–	–	–	87	–	–	87	–	87
Provision for assessments	–	–	–	–	–	–	–	1,555	1,555
Current portion of interest-bearing financial liabilities	–	–	–	–	–	15,080	15,080	–	15,080
Dividends payable	–	–	–	–	–	1,379	1,379	–	1,379
Income tax payable	–	–	–	–	–	–	–	4,580	4,580
Total liabilities	–	–	–	1,848	–	121,799	123,647	21,942	145,589
Net assets (liabilities)	**56,397**	**2,098**	**193**	**(1,086)**	**131**	**(121,799)**	**(64,066)**	**171,035**	**106,969**

The following table sets forth our consolidated carrying values and estimated fair values of financial assets and liabilities recognized as at December 31, 2009 and 2008:

	Carrying Value		Fair Value	
	2009	2008	**2009**	2008
		(in million pesos)		
Noncurrent Financial Assets				
Available-for-sale financial assets:				
Listed equity securities	**68**	69	**68**	69
Unlisted equity securities	**66**	62	**66**	62
Investment in debt securities – net of current portion	**462**	635	**474**	629
Advances and refundable deposits – net of current portion	**842**	840	**732**	728
Total noncurrent financial assets	**1,438**	1,606	**1,340**	1,488

	Carrying Value		Fair Value	
	2009	2008	**2009**	2008
		(in million pesos)		
Current Financial Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**3,300**	4,164	**3,300**	4,164
Temporary cash investments	**35,019**	29,520	**35,019**	29,520
Short-term investments	**3,824**	6,670	**3,824**	6,670
Current portion of investment in debt securities	**–**	1,656	**–**	1,656
Trade and other receivables – net:				
Foreign administrations	**4,064**	5,477	**4,064**	5,477
Retail subscribers	**3,546**	3,904	**3,546**	3,904
Corporate subscribers	**2,429**	2,865	**2,429**	2,865
Domestic carriers	**1,184**	703	**1,184**	703
Dealers, agents and others	**3,506**	2,960	**3,506**	2,960
Derivative financial assets:				
Bifurcated embedded derivatives	**6**	2	**6**	2
Foreign currency options	**–**	38	**–**	38
Forward foreign exchange options	**–**	16	**–**	16
Current portion of advances and refundable deposits	**7**	–	**7**	–
Total current financial assets	**56,885**	57,975	**56,885**	57,975
Total Financial Assets	**58,323**	59,581	**58,225**	59,463
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities:				
Long-term debt – net of current portion	**86,066**	58,899	**88,383**	57,058
Obligations under finance lease	**13**	11	**12**	11
Derivative financial liabilities:				
Long-term currency swap	**2,751**	1,761	**2,751**	1,761
Customers' deposits	**2,166**	2,251	**1,375**	1,476
Deferred credits and other noncurrent liabilities	**13,159**	9,273	**11,629**	7,959
Total noncurrent financial liabilities	**104,155**	72,195	**104,150**	68,265
Current Financial Liabilities				
Accounts payable:				
Suppliers and contractors	**14,975**	14,131	**14,975**	14,131
Carriers	**1,937**	1,780	**1,937**	1,780
Related parties	**233**	120	**233**	120
Others	**553**	263	**553**	263
Accrued expenses and other current liabilities:				
Utilities and related expenses	**17,388**	13,385	**17,388**	13,385
Employee benefits	**8,071**	2,925	**8,071**	2,925
Interests and other related costs	**1,167**	1,212	**1,167**	1,212
Others	**2,061**	1,090	**2,061**	1,090
Derivative financial liabilities:				
Foreign currency options	**–**	44	**–**	44
Forward foreign exchange contracts	**–**	31	**–**	31
Bifurcated embedded derivatives	**–**	11	**–**	11
Bifurcated equity call options	**–**	1	**–**	1
Interest-bearing financial liabilities:				
Notes payable	**2,279**	553	**2,279**	553
Current portion of long-term debt	**10,384**	14,459	**10,384**	14,459
Obligations under finance lease	**51**	59	**51**	59
Preferred stock subject to mandatory redemption	**–**	9	**–**	9
Dividends payable	**1,749**	1,379	**1,749**	1,379
Total current financial liabilities	**60,848**	51,452	**60,848**	51,452
Total Financial Liabilities	**165,003**	123,647	**164,998**	119,717

Below are the list of financial assets and liabilities carried at fair value that are classified using a fair value hierarchy as at December 31, 2009 and 2008:

	2009			2008		
	Level 1[(1)]	**Level 2[(2)]**	**Total**	Level 1[(1)]	Level 2[(2)]	Total
			(in million pesos)			
Noncurrent Financial Assets						
Available-for-sale financial assets –						
Listed equity securities	**68**	**–**	**68**	69	–	69
Investment in debt securities	**–**	**–**	**–**	193	–	193
Current Financial Assets						
Short-term investments	**486**	**–**	**486**	706	–	706
Derivative financial assets	**–**	**6**	**6**	–	56	56
Total	**554**	**6**	**560**	968	56	1,024
Noncurrent Financial Liability						
Derivative financial liabilities	**–**	**2,751**	**2,751**	–	1,761	1,761
Current Financial Liability						
Derivative financial liabilities	**–**	**–**	**–**	–	87	87
Total	**–**	**2,751**	**2,751**	–	1,848	1,848

(1) Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.

(2) Fair values determined using inputs other than quoted prices that are either directly or indirectly observable for the assets or liabilities.

As at December 31, 2009 and 2008, we do not have financial instruments whose fair values are determined using inputs that are not based on observable market data (Level 3).

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Long-term financial assets and liabilities: Fair value is based on the following:

Type	Fair Value Assumptions
Noncurrent portion of advances and refundable deposits	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.
Fixed rate loans: U.S. dollar notes Other loans in all other currencies	 Quoted market price. Estimated fair value is based on the discounted value of future cash flows using the applicable Commercial Interest Reference Rate and Philippine Dealing System Treasury Fixing rates for similar types of loans.
Variable rate loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.
Customers' deposits and deferred credits and other noncurrent liabilities	Estimated fair value is based on the discounted values of future cash flows using the applicable zero coupon rates plus credit spread.

Preferred stock subject to mandatory redemption: The fair values were determined using a discounted cash flow model.

Derivative Financial Instruments:

Foreign currency options: The fair values were computed using an option pricing model using market volatility rates of the U.S. dollar and Philippine peso exchange rate as at valuation date.

Forward foreign exchange contracts, bifurcated foreign currency forwards and foreign currency swaps: The fair values were computed as the present value of estimated future cash flows using market U.S. dollar and Philippine peso interest rates as at valuation date.

Bifurcated equity call options: The fair values were computed using an option pricing model using market volatility rates of the PLDT share price as at valuation date.

Available-for-sale financial assets: Fair values of available-for-sale financial assets, which consist of proprietary shares, were determined using quoted prices.

Investment in debt securities: Fair values were determined using quoted prices. For non-quoted securities, fair values were determined using discounted cash flow based on market observable rates.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, current investment in debt securities, trade and other receivables, current portion of advances and refundable deposits, accounts payable, accrued expenses and other current liabilities, current portion of interest-bearing financial liabilities, and dividends payable approximate their carrying values as at the end of the reporting period.

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized financial asset or liability and exposures arising from forecast transactions. Changes in the fair value of these instruments representing effective hedges are recognized directly in other comprehensive income until the hedged item is recognized in our consolidated income statement. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period. As at December 31, 2009, we have no outstanding financial instruments designated as hedges.

The table below sets out the information about our derivative financial instruments not designated as hedges as at December 31, 2009 and 2008:

		2009		2008	
	Maturity	**Notional**	**Mark-to-market Gains (Losses)**	Notional	Mark-to-market Gains (Losses)
			(in millions)		
PLDT					
Currency swaps	2017	**US$245**	**(Php1,803)**	US$295	(Php1,197)
	2012	**146**	**(948)**	159	(564)
Foreign currency sold call options	2009	**–**	**–**	57[(1)]	10
Foreign currency bought call options	2009	**–**	**–**	57	(16)
Forward foreign exchange contracts	2009	**–**	**–**	57	(31)
Bifurcated equity call options	2009	**–**	**–**	–	(1)
			(2,751)		(1,799)
Smart					
Bifurcated embedded derivatives	2010	**–**	**2**	3	(10)
		–	**2**		(10)
ePLDT					
Forward foreign exchange contracts	2009	**–**	**–**	5	16
Bifurcated embedded derivatives	2012	**1**	**4**	2	1
			4		17
Net liabilities			**(Php2,745)**		(Php1,792)

[(1)] *Foreign currency sold call options based on the same notional amount as the foreign currency bought call options.*

	2009	2008
	(in million pesos)	
Presented as:		
Current assets	**6**	56
Noncurrent liabilities	**(2,751)**	(1,761)
Current liabilities	**–**	(87)
Net liabilities	**(2,745)**	(1,792)

Analysis of gains (losses) on derivative financial instruments for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
		(in million pesos)	
Net mark-to-market losses at end of year	**(2,745)**	(1,792)	(7,027)
Net mark-to-market losses at beginning of year	**(1,792)**	(7,027)	(6,499)
Net change	**(953)**	5,235	(528)
Settlements, accretion and conversion	**546**	(2,367)	(622)
Hedge cost	**(599)**	(819)	(1,125)
Net gains charged on cash flow hedges and transferred from cumulative translation adjustments and taken to income	**–**	697	–
Net losses on cash flow hedges charged to cumulative translation adjustments	**–**	662	1,234
Effective portion recognized in the profit or loss for the cash flow hedge	**–**	286	–
Ineffective portion recognized in the profit or loss for the cash flow hedge	**–**	118	(3)
Net gains (losses) on derivative financial instruments (Note 4)	**(1,006)**	3,812	(1,044)

PLDT

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

Currency Swaps

PLDT entered into long-term principal only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2012 and 2017. As at December 31, 2009 and 2008, these long-term currency swaps have an aggregate notional amount of US$391 million and US$454 million, respectively. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. In March and April 2004, PLDT entered into amendments to keep the lowest reset exchange rate and unwind the downward resettable feature of US$550 million of its long-term principal only currency swap agreements in order to lower the running hedging cost of the swaps. As at December 31, 2009 and 2008, the outstanding swap contracts have an agreed average swap exchange rates of Php50.60 and Php50.52, respectively. The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 2.83% and 3.32% per annum as at December 31, 2009 and 2008, respectively.

On various dates in 2008, the long-term principal only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php1,042 million and Php33 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US$159 million and US$295 million for the notes maturing in 2012 and 2017, respectively, as at December 31, 2008.

On various dates in 2009, the long-term principal only currency swap agreements maturing in 2012 and 2017 were partially terminated, with a total aggregate settlement amount of Php112 million and Php485 million, respectively. As a result of these unwinding transactions, the outstanding notional amount was reduced to US$146 million and US$245 million for the notes maturing in 2012 and 2017, respectively, as at December 31, 2009.

Foreign Currency Options

To manage hedging costs, the currency swap agreement relating to the fixed rate note due in 2009 with a notional amount of US$175 million has been structured to include currency option contracts. If the Philippine peso to U.S. dollar spot exchange rate on maturity date settles beyond Php52.50 to US$1.00 up to Php90.00 to US$1.00, PLDT will have the option to purchase U.S. dollar at an exchange rate of Php52.50 to US$1.00. On the other hand, if the Philippine peso to U.S. dollar spot exchange rate settles beyond Php90.00, PLDT will have the option to purchase U.S. dollar at an exchange rate of Php52.50 to US$1.00 plus the excess above the agreed threshold rate. If on maturity, the Philippine peso to U.S. dollar spot exchange rate is lower than the exchange rate of Php52.50 to US$1.00, PLDT will have the option to purchase at the prevailing Philippine peso to U.S. dollar spot exchange rate. The net semi-annual floating hedge cost payments that PLDT is required to pay under these transactions was approximately 2.84% per annum as at December 31, 2008.

On various dates in 2008, 2007 and 2006, the currency option agreements were partially terminated, with a total aggregate settlement amount of Php270 million. The remaining balance of the currency option agreement amounting to US$57 million as at December 31, 2008 was terminated on various dates in 2009 with a total aggregate settlement amount of Php71 million. As at December 31, 2009, there are no outstanding currency option agreements.

In order to manage hedge costs, the swaps and option include a credit-linkage feature with PLDT as the reference entity. The specified credit events include bankruptcy, failure to pay, obligation acceleration, moratorium/repudiation, and restructuring of PLDT bonds or all or substantially all of PLDT's obligations. Upon the occurrence of any of these credit events, subject to agreed threshold amounts where applicable, the obligations to both PLDT and its counterparty under the swap and option contracts terminate without further settlements to either party, including any mark-to-market value of the swaps. As at December 31, 2009, there are no outstanding currency option agreements, while as at December 31, 2008, US$511 million (US$454 million under currency swaps and US$57 million under foreign currency options) of PLDT's long-term currency swaps/options include credit-linkage.

Forward Foreign Exchange Contracts

In 2008, PLDT entered into short-term U.S. dollar forward foreign exchange purchase contracts to hedge a portion of its fixed rate notes maturing in 2009. As at December 31, 2009, there are no outstanding forward foreign exchange contracts while as at December 31, 2008, the outstanding forward foreign exchange contracts on the fixed rate notes amounted to US$57 million with an average exchange rate of Php48.65.

Bifurcated Equity Call Options

Pursuant to Piltel's debt restructuring plan, PLDT issued shares of Series VI Convertible Preferred Stock. See *Note 20 – Interest-bearing Financial Liabilities*. Each share of Series VI Convertible Preferred Stock is convertible at any time at the option of the holder into one share of PLDT's common stock. On the date immediately following the seventh anniversary of the issue date of the Series VI Convertible Preferred Stock, the remaining outstanding shares under this series will be mandatorily converted into shares of PLDT's common stock. For 30 days thereafter, the holders of these mandatorily converted shares of PLDT's common stock have the option to sell such shares of PLDT's common stock back to PLDT for US$36.13. On June 5, 2008 and November 9, 2009, a total of 341 thousand shares of the Series VI Convertible Preferred Stock were converted to PLDT common stock. As at December 31, 2009, there are no embedded call options. As at December 31, 2008, the negative fair market value of these embedded call options amounted to Php1 million.

Smart

In 2009, Smart entered into short-term U.S. dollar forward foreign exchange sale contracts maturing in July 2009. As at December 31, 2009, there were no outstanding forward foreign exchange contracts.

Smart's embedded derivatives were bifurcated from service and purchase contracts. As at December 31, 2009 and 2008, outstanding contracts amounted to US$209 thousand and US$3 million, respectively, including service contracts denominated in U.S. dollars, which is not the functional currency of a substantial party to the contract or the routine currency of the transaction. The total mark-to-market value of these bifurcated embedded currency forwards as at December 31, 2009 and 2008 amounted to Php2 million and Php10 million, respectively.

ePLDT

In October 2008, Parlance and Vocativ entered into a non-deliverable forward sale agreement in the total amount of US$2.4 million each, with maturities beginning January 2009 up to December 2009 at an average exchange rate of Php51.89 and Php52.17, respectively. As at December 31, 2009, all non-deliverable forward sales agreements have matured. The mark-to-market value of this forward contract as at December 31, 2008 amounted to Php8 million each.

Level Up! embedded derivatives were bifurcated from various license contracts and other service agreements denominated in U.S. dollar. The aggregate notional amount of these bifurcated embedded currency forwards amounted to US$1 million and US$2 million as at December 31, 2009 and 2008, respectively. The total mark-to-market value of these bifurcated embedded currency forwards as at December 31, 2009 and 2008 amounted to Php4 million and Php1 million, respectively.

Financial Risk Management Objectives and Policies

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

Liquidity Risk

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 ROP, and Philippine banks and corporates, managed funds and other structured products linked to the ROP. 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 Php1,317 million as at December 31, 2009 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 Php38,319 million and Php3,824 million, respectively, as at December 31, 2009. Details on our letters of credit and summary of the maturity profile of our financial liabilities as at December 31, 2009 and 2008 based on contractual undiscounted payments is set out in *Note 26 – Contractual Obligations and Commercial Commitments.*

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.

The following table shows our consolidated foreign currency-denominated monetary financial assets and liabilities and their Philippine peso equivalents as at December 31, 2009 and 2008:

	2009		2008	
	U.S. Dollar	**Php**[(1)]	U.S. Dollar	Php[(2)]
	(in millions)			
Noncurrent Financial Assets				
Note receivable	**2**	**81**	–	–
Advances and refundable deposits	**–**	**7**	–	–
Total noncurrent financial assets	**2**	**88**	–	–

	2009		2008	
	U.S. Dollar	**Php**(1)	U.S. Dollar	Php(2)
	(in millions)			
Current Financial Assets				
Cash and cash equivalents	**140**	**6,496**	101	4,794
Short-term investments	**47**	**2,164**	21	986
Trade and other receivables – net	**206**	**9,573**	207	9,880
Derivative financial assets	**–**	**6**	1	56
Total current financial assets	**393**	**18,239**	330	15,716
Total Financial Assets	**395**	**18,327**	330	15,716
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**837**	**38,871**	925	44,064
Derivative financial liabilities	**59**	**2,751**	37	1,761
Total noncurrent financial liabilities	**896**	**41,622**	962	45,825
Current Financial Liabilities				
Accounts payable	**155**	**7,180**	143	6,820
Accrued expenses and other current liabilities	**95**	**4,409**	93	4,447
Derivative financial liabilities	**–**	**–**	2	87
Current portion of interest-bearing financial liabilities	**155**	**7,220**	301	14,331
Total current financial liabilities	**405**	**18,809**	539	25,685
Total Financial Liabilities	**1,301**	**60,431**	1,501	71,510

(1) *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.*

(2) *The exchange rate used to translate the U.S. dollar amounts into Philippine peso was Php47.65 to US$1.00, the peso-dollar exchange rate as quoted through the Philippine Dealing System as at December 31, 2008.*

As at March 1, 2010, the peso-dollar exchange rate was Php46.10 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated financial liabilities as at December 31, 2009 would have decreased by Php299 million.

As at December 31, 2009 and 2008, approximately 46% and 78%, respectively, of our total consolidated debts (net of consolidated debt discount) was denominated in U.S. dollars. Consolidated foreign currency-denominated debt decreased to Php45,633 million as at December 31, 2009 from Php57,916 million as at December 31, 2008. PLDT's outstanding long-term principal only currency swap contracts amounted to US$391 million and US$454 million as at December 31, 2009 and 2008, respectively. Consequently, the unhedged portion of our consolidated debt amounts was approximately 28% (or 19%, net of our consolidated U.S. dollar cash balances) and 45% (or 38%, net of our consolidated U.S. dollar cash balances) as at December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009, 2008 and 2007, approximately 34%, 35% and 34%, respectively, of our consolidated service revenues were denominated in U.S. dollars and/or were linked to the U.S. dollars. In this respect, the recent depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar increased our revenues, and consequently, our cash flow from operations in Philippine peso terms.

The Philippine peso had appreciated by 2.56% against the U.S. dollar to Php46.43 to US$1.00 as at December 31, 2009 from Php47.65 to US$1.00 as at December 31, 2008. As at December 31, 2008, the Philippine peso had depreciated by 15.1% to Php47.65 to US$1.00 from Php41.41 to US$1.00 as at December 31, 2007. As a result of our consolidated foreign exchange movements as well as the amount of our consolidated outstanding net foreign currency debts and hedges, we recognized net consolidated foreign exchange gains of Php909 million in 2009, net consolidated foreign exchange losses of Php6,170 million in 2008 and net consolidated foreign exchange gains of Php2,796 million in 2007. See *Note 4 – Operating Segment Information*.

Management conducted a survey among our banks to determine the outlook of the peso-dollar exchange rate until our next reporting date of March 31, 2010. Our outlook is that the peso-dollar exchange rate may weaken/strengthen by 1.13% as compared to the exchange rate of Php46.43 to US$1.00 as at December 31, 2009. If the peso-dollar exchange rate had weakened/strengthened by 1.13% as at December 31, 2009, with all other variables held constant, profit after tax for the year would have been Php224 million higher/lower and our consolidated stockholders' equity as at year end 2009 would have been Php217 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, 2009 and 2008. Financial instruments that are not subject to interest rate risk were not included in the table.

As at December 31, 2009

	In U.S. Dollar							Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php			In U.S. Dollar	In Php
					(in millions)						
Assets:											
Cash in Bank											
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%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
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%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
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**

	In U.S. Dollar							Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php			In U.S. Dollar	In Php
					(in millions)						
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% to 4.70%	3.79%	2.25% to 3.79%	–	–	–	–	–	–	–
Philippine Peso	–	63	126	236	305	730	33,858	84	33,774	744	34,535
Interest rate	–	6.0323% to 8.4346%	5.625% to 8.4346%	6.125% to 9.1038%	6.50% to 9.1038%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	41	160	74	60	–	335	15,543	124	15,419	332	15,419
Interest rate	US$ LIBOR+ 0.05% to 2.5%	US$ LIBOR+ 0.42% to 1.85%; swap rate + 2.79%	US$ LIBOR+ 0.42% to 1.85%; swap rate + 2.79%	US$ LIBOR+ 0.42% to 1.85%; swap rate + 2.79%	–	–	–	–	–	–	–
Philippine Peso	–	185	81	107	–	373	17,349	27	17,322	373	17,322
Interest rate	–	MART 1 + 0.75%; PDST-F+ 1.0% to 1.50%; AUB's prime rate	PDST-F + 1.0% to 1.50%; AUB's prime rate	PDST-F + 1.0% to 1.50%	–	–	–	–	–	–	–
Short-term Debt											
Notes Payable											
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**

As at December 31, 2008

	In U.S. Dollar							Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php			In U.S. Dollar	In Php
					(in millions)						
Assets:											
Cash in Bank											
U.S. Dollar	26	–	–	–	–	26	1,258	–	1,258	26	1,258
Interest rate	0.10% to 4.50%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	56	–	–	–	–	56	2,682	–	2,682	56	2,682
Interest rate	0.25% to 3.50%	–	–	–	–	–	–	–	–	–	–
Temporary Cash Investments											
U.S. Dollar	74	–	–	–	–	74	3,400	–	3,400	74	3,400
Interest rate	0.30% to 7.50%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	567	–	–	–	–	567	26,120	–	26,120	567	26,120
Interest rate	2% to 7.50%	–	–	–	–	–	–	–	–	–	–
Short-term Investments											
U.S. Dollar	21	–	–	–	–	21	985	–	985	21	985
Interest rate	3.29%	–	–	–	–	–	–	–	–	–	–
Philippine Peso	119	–	–	–	–	119	5,685	–	5,685	119	5,685
Interest rate	6.69%	–	–	–	–	–	–	–	–	–	–
Investment in Debt Securities											
Philippine Peso	35	–	4	9	–	48	2,291	–	2,291	48	2,285
Interest rate	6.3194%	–	6.125%	6.875% to 7%	–	–	–	–	–	–	–
	898	**–**	**4**	**9**	**–**	**911**	**42,421**	**–**	**42,421**	**911**	**42,415**

	In U.S. Dollar							Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value	
	Below 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total	In Php			In U.S. Dollar	In Php
					(in millions)						
Liabilities:											
Long-term Debt											
Fixed Rate											
U.S. Dollar Notes	114	–	–	159	295	568	27,061	368	26,693	559	26,607
Interest rate	10.50%	–	–	11.375%	8.35%	–	–	–	–	–	–
U.S. Dollar Fixed Loans	22	50	11	3	280	366	17,444	4,046	13,398	252	12,030
Interest rate	4.49% to 6%	3.79% to 4.70%	3.79% to 4.70%	3.79%	2.25%	–	–	–	–	–	–
Philippine Peso	–	3	1	182	33	219	10,420	79	10,341	209	9,955
Interest rate	–	6.50% to 8.4346%	5.625% to 8.4346%	5.625% to 8.4346%	6.125% to 6.50%	–	–	–	–	–	–
Variable Rate											
U.S. Dollar	13	215	59	77	–	364	17,339	67	17,272	363	17,272
Interest rate	US$ LIBOR+ 1.75% to 2.75%	US$ LIBOR+ 0.42% to 2.50%	US$ LIBOR+ 0.42% to 0.815%	US$ LIBOR+ 0.42% to 0.75%	–	–	–	–	–	–	–
Philippine Peso	–	47	32	40	–	119	5,670	16	5,654	119	5,653
Interest rate	–	MART 1 + 0.75% to 5.70%; PDST-F + 1.0% to 1.50%	MART 1 + 0.75%; PDST-F + 1.0% to 1.50%	PDST-F + 1.0% to 1.50%	–	–	–	–	–	–	–
Short-term Debt											
Notes Payable											
U.S. Dollar	12	–	–	–	–	12	553	–	553	12	553
Interest rate	5.25% to 5.30%	–	–	–	–	–	–	–	–	–	–
	161	**315**	**103**	**461**	**608**	**1,648**	**78,487**	**4,576**	**73,911**	**1,514**	**72,070**

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

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

Management conducted a survey among our banks to determine the outlook of the U.S. dollar and Philippine peso interest rates until our next reporting date of March 31, 2010. Our outlook is that the U.S. dollar and Philippine peso interest rates may move 5 basis points and 10 basis points higher/lower, respectively, as compared to levels as at December 31, 2009. If U.S. dollar interest rates had been 5 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 Php32 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 10 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 Php52 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and loss/gain on derivative transactions.

Credit Risk

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

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

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

The table below shows the maximum exposure to credit risk for the components of our consolidated statement of financial position, including derivative financial instruments.

	Gross Maximum Exposure[1]		Net Maximum Exposure[2]	
	2009	2008	**2009**	2008
	(in million pesos)			
Loans and receivables:				
Advances and refundable deposits	**849**	840	**848**	840
Cash and cash equivalents	**38,319**	33,684	**38,101**	33,621
Short-term investments	**3,338**	5,964	**3,338**	5,963
Foreign administrations	**4,064**	5,477	**4,011**	5,477
Retail subscribers	**3,546**	3,904	**3,505**	3,877
Corporate subscribers	**2,429**	2,865	**2,328**	2,709
Domestic carriers	**1,184**	703	**1,184**	703
Dealers, agents and others	**3,506**	2,960	**3,506**	2,958
Held-to-maturity investments:				
Investment in debt securities	**462**	2,098	**462**	2,098
Designated at fair value through profit or loss:				
Investment in debt securities	**–**	193	**–**	193
Available-for-sale financial assets	**134**	131	**134**	131
Held-for-trading:				
Short-term investments	**486**	706	**486**	706
Bifurcated embedded derivatives	**6**	2	**6**	2
Foreign currency options	**–**	38	**–**	38
Forward foreign exchange contracts	**–**	16	**–**	16
Total	**58,323**	59,581	**57,909**	59,332

(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 or other credit enhancements or offsetting arrangements or deposit insurance.*

The table below provides information regarding the credit quality by class of our financial assets according to our credit ratings of counterparties:

		Neither past due nor impaired		Past due but	
	Total	**Class A[1]**	**Class B[2]**	**not impaired**	**Impaired**
		(in million pesos)			
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	–	–
Held-for-trading[3]:					
Short-term investments	486	486	–	–	–
Bifurcated embedded derivatives	6	6	–	–	–
Total	**70,273**	**48,385**	**3,291**	**6,647**	**11,950**

	Total	Neither past due nor impaired		Past due but not impaired	Impaired
		Class A[(1)]	Class B[(2)]		
	(in million pesos)				
December 31, 2008					
Loans and receivables:					
Advances and refundable deposits	840	703	137	–	–
Cash and cash equivalents	33,684	32,979	705	–	–
Short-term investments	5,964	5,680	284	–	–
Corporate subscribers	9,188	858	272	1,663	6,395
Retail subscribers	8,993	1,457	550	1,897	5,089
Foreign administrations	5,916	2,602	956	1,919	439
Domestic carriers	877	84	3	616	174
Dealers, agents and others	3,271	2,114	444	402	311
Held-to-maturity investments:					
Investment in debt securities	2,098	2,098	–	–	–
Designated at fair value through profit or loss:					
Investment in debt securities	193	193	–	–	–
Available-for-sale financial assets	131	103	28	–	–
Held-for-trading[(3)]:					
Short-term investments	706	706	–	–	–
Forward foreign currency options	38	38	–	–	–
Forward foreign exchange contracts	16	16	–	–	–
Bifurcated embedded derivatives	2	2	–	–	–
Total	**71,917**	**49,633**	**3,379**	**6,497**	**12,408**

[(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.*

The aging analysis of past due but not impaired class of financial assets is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
	(in million pesos)					
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	–	–	–	–
Held-for-trading:						
Short-term investments	486	486	–	–	–	–
Bifurcated embedded derivatives	6	6	–	–	–	–
Total	**70,273**	**51,676**	**3,730**	**1,101**	**1,816**	**11,950**

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			1-60 days	61-90 days	Over 91 days	
			(in million pesos)			
December 31, 2008						
Loans and receivables:						
Advances and refundable deposits	840	840	–	–	–	–
Cash and cash equivalents	33,684	33,684	–	–	–	–
Short-term investments	5,964	5,964	–	–	–	–
Corporate subscribers	9,188	1,130	1,024	313	326	6,395
Retail subscribers	8,993	2,007	1,338	266	293	5,089
Foreign administrations	5,916	3,558	1,043	550	326	439
Domestic carriers	877	87	80	87	449	174
Dealers, agents and others	3,271	2,558	48	9	345	311
Held-to-maturity investments:						
Investment in debt securities	2,098	2,098	–	–	–	–
Designated at fair value through profit or loss:						
Investment in debt securities	193	193	–	–	–	–
Available-for-sale financial assets	131	131	–	–	–	–
Held-for-trading:						
Short-term investments	706	706	–	–	–	–
Forward foreign currency options	38	38	–	–	–	–
Forward foreign exchange contracts	16	16	–	–	–	–
Bifurcated embedded derivatives	2	2	–	–	–	–
Total	**71,917**	**53,012**	**3,533**	**1,225**	**1,739**	**12,408**

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 allowance.

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 allowance

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

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

Capital Management

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 then, our strong cash flows have 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 earnings 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. As at December 31, 2009 and 2008, we had acquired a total of 2.7 million shares and 2.0 million shares of PLDT's common stock, respectively, at a weighted average price of Php2,387 per share and Php2,521 per share, respectively, for a total consideration of Php6,405 million and Php4,973 million, respectively. See *Note 8 – Earnings Per Common Share* and *Note 19 – Equity*.

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 (notes payable and long-term debt). Our objective is to maintain our net consolidated debt to equity ratio below 100%.

	2009	2008
	(in million pesos)	
Long-term debt, including current portion (Note 20)	96,450	73,358
Notes payable (Note 20)	2,279	553
Total debt	98,729	73,911
Cash and cash equivalents (Note 15)	(38,319)	(33,684)
Short-term investments	(3,824)	(6,670)
Net debt	56,586	33,557
Equity attributable to equity holders of PLDT	98,575	105,531
Net consolidated debt to equity ratio	57%	32%

29. Cash Flow Information

	2009	2008	2007
		(in million pesos)	
Non-cash financing activities:			
Recognition of asset retirement obligations (Note 21)	**17**	70	48
Conversion of preferred stock subject to mandatory redemption (Note 20)	**9**	1,077	313

30. Subsequent Event

On March 1, 2010, Piltel, Metro Pacific Investments Corporation, or MPIC, and Rightlight Holdings, Inc., or Rightlight, entered into an Omnibus Agreement, or OA. Rightlight, which will be renamed Beacon Electric Asset Holdings, Inc., is a newly organized special purpose company with the sole purpose of holding the respective shareholdings in Meralco of Piltel and MPIC. Piltel and MPIC are Philippine affiliates of the First Pacific and both hold equity shares in Meralco, see *Note 10 – Investments in Associates and Joint Ventures*. Under the OA, Piltel and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Rightlight.

Investment in Rightlight

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

MPIC presently beneficially owns the entire outstanding capital stock of Rightlight consisting of 25,000 common shares of Rightlight, with a total par value of Php25,000.

Each of Piltel and MPIC has agreed to subscribe to 1,156,500,000 common shares of Rightlight, for a subscription price of Php20 per share or a total of Php23.13 billion, out of the proposed increase in authorized capital stock of Rightlight. Piltel and MPIC have also agreed that their resulting equity after such subscriptions and Piltel's purchase from MPIC of 12,500 Rightlight common shares will be 50% each of the outstanding common shares of Rightlight.

MPIC has also agreed to subscribe to 801,044,415 shares of Rightlight's preferred stock for a subscription price of Php10 per share or a total of Php8.01 billion.

The completion of the subscription of MPIC to 1,156,500,000 common shares and 801,044,415 preferred shares of Rightlight is subject to: (a) MPIC Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (c) the full payment of the subscription price, which is expected to be made on March 30, 2010.

The completion of the subscription of Piltel to 1,156,500,000 common shares of Rightlight is subject to: (a) Piltel Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of Piltel, which is expected to be obtained on May 7, 2010; (c) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (d) the full payment of the subscription price, which is expected to be made in May 2010 after the Piltel shareholders' approval.

The subscription price of Piltel's and MPIC's subscription to Rightlight shares of stock will be offset in full (in the case of Piltel) and in part (in the case of MPIC) against the amounts receivable from Rightlight arising from the transaction described in the following section. In addition, MPIC will settle its remaining balance in cash.

Transfer of Meralco Shares to Rightlight

Rightlight has agreed to purchase 154,200,000 and 163,602,961 Meralco shares ("Transferred Shares") from Piltel and MPIC, respectively, for a consideration of Php150 per share or a total of Php23.13 billion for the Piltel Meralco shares and Php24.54 billion for the MPIC Meralco shares.

The completion of the sale of the MPIC Meralco shares to Rightlight is subject to: (a) MPIC Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010; and (d) the release of the pledge over the MPIC Meralco shares which is expected to be obtained by March 30, 2010.

The completion of the sale of the Piltel Meralco shares to Rightlight is subject to: (a) Piltel Board of Directors' approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of First Pacific, which was obtained on March 1, 2010; (c) the approval of the shareholders of Piltel, which is expected to be obtained on May 7, 2010; and (d) the approval of the shareholders of First Pacific, which is expected to be obtained on March 30, 2010.

The transfer of legal title to the Meralco shares will be effected through a special block sale in the PSE after the release of the existing pledge over the shares being transferred by MPIC, for the MPIC Meralco shares, and after the approval of the transaction by Piltel's shareholders, for the Piltel Meralco shares.

Subject to rights over certain property dividends that may be declared or distributed in respect of the 317,802,961 Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest that will be transferred to Rightlight by MPIC and Piltel in respect of the foregoing 317,802,961 Transferred Shares shall include: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing.

Piltel may, at some future time and under such terms and conditions as may be agreed by Piltel and Rightlight, transfer to Rightlight its remaining 68,800,000 Meralco common shares.

Call Option

Under the OA, MPIC has assigned its right to acquire the call option (the "Call Option") over 74,700,000 common shares of Meralco currently held by FPHC (the "Option Shares"), to Rightlight. As a result of this assignment, Rightlight and FPHC have executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Rightlight.

The Call Option is exercisable at the option of Rightlight during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares shall be Php300 per share or an aggregate exercise price of Php22.41 billion.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74,700,000 shares of Meralco common stock, which will be retained by FPHC if the Call Option is exercised, the rights, title and interest that will be transferred to Rightlight by FPHC in respect of the Option Shares if Rightlight exercises the Call Option shall include: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights hereafter accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends

With respect to the 317,802,961 Transferred Shares and the remaining 68,800,000 Meralco common shares held by Piltel, FPHC will have the benefit of being assigned certain property dividends that may be declared on such shares subject to Rightlight exercising the Call Option.

With respect to the 74,700,000 common shares of Meralco that may be acquired by Rightlight in the event that the Call Option is exercised, FPHC will have the benefit of retaining certain property dividends that may be declared on such shares.

Governance Arrangements

Rightlight, Piltel and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Rightlight equity structure will result to a jointly-controlled entity.

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