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## SECURITIES AND EXCHANGE COMMISSION

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### Company Information

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SEC Registration No. 0000145111

Company Name DIGITAL TELECOMMUNICATIONS PHILS. INC.

Industry Classification

Company Type Stock Corporation

### Document Information

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**SEC Number 145111**

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**DIGITAL TELECOMMUNICATIONS PHILS., INC.  
(DIGITEL)**

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(Company's Full Name)

**110 E. Rodriguez Jr. Avenue, Bagumbayan 1110 Quezon City, Metro Manila**

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(Company's Address)

**(632) 397- 8888**

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(Telephone Number)

**December 31**

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q  
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarter period ended September 30, 2011
2. SEC Identification Number 145111
3. BIR Tax Identification No. 000-449-918-000
4. Exact name of registrant as specified in its charter: DIGITAL TELECOMMUNICATIONS PHILS., INC.
5. Philippines 6. \_\_\_\_\_ (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. 110 E. Rodriguez Jr. Ave., Bagumbayan, Quezon City 1110  
Address of principal office Postal Code
8. (632) 397-8888  
Issuer's telephone number, including area code
9. Not applicable  
Former Name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sec. 4 and 8 of the RSA
- | <u>Title of Each Class</u>    | <u>Number of Shares of Common Stock<br/>Outstanding and Amount of Debt Outstanding</u> |
|-------------------------------|----------------------------------------------------------------------------------------|
| Common stock, ₱1.00 par value | 6,356,976,300                                                                          |
11. Are any or all of these securities listed on the Philippine Stock Exchange.  
Yes [  ] No [  ] **All securities are listed as common stock.**
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):  
Yes [  ] No [  ]
- (b) has been subject to such filing requirements for the past 90 days.  
Yes [  ] No [  ]

## **PART I FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

*Our unaudited consolidated financial statements include the accounts of Digital Telecommunications Phils., Inc. (Parent Company), and its wholly-owned subsidiaries, Digitel Mobile Phils., Inc., Digitel Capital Philippines Ltd., and Digitel Information Technology Services, Inc. collectively referred to as “Digitel Group” in this report.*

*Our financial statements, and financial information discussed herein, have been prepared on a historical cost basis, except for certain derivative financial instruments that have been measured at fair value.*

### **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the accompanying notes.*

*Our MD&A should not be considered as all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general economic, political and environmental condition after the stated reporting period.*

*The financial information appearing in this report and in the accompanying unaudited consolidated financial statements are presented in Philippine peso, the Company’s functional currency, and all values are rounded to the nearest thousands, except when otherwise indicated.*

### **OVERVIEW OF THE BUSINESS**

Established in August 1987, Digital Telecommunications Phils., Inc. (“**Digitel**”) is 49.6% owned by JG Summit Holdings Inc. (“**JGSHI**”) and its controlled subsidiary as of September 30, 2011. On October 26, 2011, Philippine Long Distance Telephone Company (PLDT), acquired approximately 51.55% of the issued common stock of Digitel from JGSHI and other certain related parties.

Digitel has expanded its interests in wireline services in recent years and currently provides wireless/mobile telecommunication services, wireline telecommunications, hi-speed data transmission and internet services. Digitel’s operations are divided into three key business segments: wireless telecommunication services, data transmission and internet services, and wireline telecommunication services. Digitel also provides a range of value-added services and products in each of its segments. As of September 30, 2011, Digitel has approximately 16.0 million wireless subscribers (across its prepaid and postpaid options in its 2G and 3G networks) and over 480,000 subscribers across its data and wireline segments.

**Wireline telecommunication services:** Digitel is one of the major providers of wireline communication systems in Luzon Island. Through over 600 regional and local exchanges, Digitel telephones are now available in 281 towns and cities throughout Luzon. As of September 30, 2011, Digitel had a total of almost 600,000 installed lines and over 480, 000 working lines. Digitel’s voice products and value-added services include local call, national, and international toll services, payphones and prepaid phone cards.

Digitel has introduced the SunTel Wireless Landline to extend its landline coverage by employing GSM technology using Sun Cellular’s network to provide an alternative last mile solution to traditional copper cable facilities.

**Data transmission and internet services:** Digitel's data division, offers consumer and corporate customers access to high-speed data transmission and internet services through domestic and international leased line services, frame relay, and dedicated internet lines. Digitel provides enterprise grade services and solutions to some of the top enterprise customers in the Philippines, with customer relationships in the banking, manufacturing, logistics, utilities, trading, business process outsourcing (BPO) companies, hospitality and real estate sectors.

**Wireless telecommunication services:** In September 2001, Digitel established a wholly owned subsidiary, Digitel Mobile Phils., Inc. (DMPI), to provide wireless telecommunication services in the Philippines. DMPI is one of the Philippines' leading mobile telecommunications companies. DMPI has operated its wireless mobile services under the 'Sun Cellular' brand since 2003. Sun Cellular uses Global Service for Mobile (GSM) technology to provide voice services (local, national, international calling), messaging services (short text or multimedia messaging), outbound and inbound international roaming, broadband wireless technology, and various value-added services.

Service revenues are primarily derived from service connection fees and monthly service charges and from charges generated by voice calls that vary based on the distance, duration and time of day of the call. Since the launch of the wireless service, revenues are also generated from the sale of mobile phone kits and from charges for SMS and other value added services aside from traditional voice services.

## **Products and Services**

### ***Wireline Communications – Voice Services***

#### **Fixed Landline**

- **Digitel Choice Plans** are comprehensive business and residential telephone subscription packages. These subscription plans provide unlimited local calls at very affordable fixed basic monthly fee. These Choice plans come in metered and non-metered services with national and international calls. All Choice plans come with Internet-ready feature.
- **Digitel Prepaid** is Digitel's all-in-one prepaid phone card that gives subscribers convenient access to phone, fax, and dial-up internet from any Digitel postpaid and prepaid landline, SunTel wireless landline, and Digitel payphone.
- **DGMAX** is an international prepaid calling card of Digitel that allows IDD calls through Digitel's postpaid lines, prepaid lines, payphones or SunTel lines. Only P1.50 per minute to call the U.S.(main) and Canada and as low as P2 per minute to other countries. DGMAX card is available in P100 and P50 card denominations.

#### **Wireless Landline**

- **SunTel Wireless Landline** is a wireless landline service from Digitel and Sun Cellular that offers unlimited local landline-to-landline calls and long distance calls to all SunTel and Digitel Landlines. Consumers can choose from the following plans: SunTel Plan 350 with free phone, Easy SunTel 350, line only and SunTel Supplementary Line 249. This service is available in the National Capital Region (NCR) including Rizal, Bulacan, Cavite, Bataan, Pampanga, Tarlac, Benguet/Baguio, Nueva Ecija, Pangasinan, La Union, Isabela, Batangas, Laguna, Quezon, Zambales, Ilocos, Albay, Camarines Sur, Camarines Norte, and Catanduanes.

- **SunTel Family Plan** which is priced at P999 monthly service fee, allows subscribers to avail of 3 SunTel wireless landlines with 3 free phones, giving them savings of worth P51 per month.
- **SunTel GO** is an innovative offering which combines the SunTel wireless landline service with the Sun Broadband Wireless service. It provides subscribers unlimited local landline calls and unlimited internet usage of up to 1 Mbps. It comes in two variants, SunTel Go Plan 799 and SunTel Go Plan 999 which are available in NCR, Rizal, Bulacan, Pampanga, Pangasinan, Tarlac, Benguet, Cavite, Laguna, Batangas, Legazpi, Zambales and Quezon.

A rating policy was implemented in February 2010 called One Province One Local Area, wherein all calls made from Digitel Landline and SunTel Wireless Landlines to any landline within the same province are treated as local calls (i.e., free). Previous to this policy, there were certain calls to landlines of other telcos within the same province that were charged as long distance based on the interconnection agreements with the other telcos. This policy is being implemented in the provinces of Bulacan, Pampanga, Ilocos, Cavite, Bataan, Tarlac, Benguet, Nueva Ecija, Pangasinan, La Union, Isabela, Quirino, Nueva Vizcaya, Batangas, Laguna, Quezon, Zambales, Albay, Camarines Sur, Camarines Norte, and Catanduanes.

#### ***Wireline Communications – Data***

- **Digitel DSL** is the high-speed, but low-cost Internet and landline bundled service catering to residential consumers all over Luzon. It comes in several packages to suit the various speed requirements of every household, ranging from 512 Kbps to as fast as 4.5 Mbps. It also offers the best value in terms of monthly fee in the market today through Plan 888 (512 Kbps), Plan 999 (768 Kbps), Plan 1199 (1.0 Mbps), Plan 1799 (2.0 Mbps), Plan 2299 (3.0 Mbps), Plan 2799 (4.0 Mbps) and Plan 3199 (4.5 Mbps).
- **Triple Unlimited** is a DSL, landline and SunTel wireless landline bundled service. To avail of this great deal, DSL subscribers only have to add P249 monthly to get a free SunTel phone and make unlimited voice calls, making it the lowest-priced, full-packed bundle in the market.
- **Home Wi-Fi** turns a home into a hot spot so all members of the family can enjoy the convenience of simultaneously logging into a high-speed Internet connection. Subscribers may avail of a two-in-one Wi-Fi modem router for only P350 per month for three months or even get it for free for an extended lock-in period of 24 months.
- **DSL with free mobile phone and Sun SIM.** To take full advantage of the convergence of Digitel and Sun services, new Digitel DSL subscribers can get a free mobile phone from Nokia, Samsung and My Phone with Sun prepaid kit.
- **7-Day DSL Free Trial.** Existing postpaid voice subscribers are given a 7-day DSL free trial to experience the higher quality of service with Digitel's new investments to upgrade both its local and international networks.

#### ***Wireless***

Sun Cellular offers the latest in GSM technology, providing voice services (local, national, international calling), messaging services (short text or multimedia messaging), outbound and inbound international roaming, broadband wireless technology, and value-added services such as Mobile Internet, and up-to-date downloadable contents like ringtones, dialtunes, picture messages, and logos.

## Postpaid Service

Postpaid services offered are Local and International Calls and SMS, Mobile Internet and Wireless Landline available under Postpaid plans with varying monthly service fees. In its commitment to provide innovative services at affordable prices, Sun Cellular has made available the following products:

- **Regular Plans** – These plans offer subscribers more value because they can enjoy Sun’s unlimited calls and text services, and low call rates to other networks. Subscribers can also opt to avail of Sun’s unlimited add-on plans.
- **Sun Group Plans** – These plans are designed for those who seek to build stronger ties with family and friends.
- **Fixed Load Plans** – This is a manageable and worry-free postpaid service for individuals and companies who want to control their mobile telephone spending and that of their immediate circle of dependents. This plan has a fixed monthly service fee, but offers the flexibility and the convenience of using prepaid services.
- **Sun EasyLine and Sun EasyPhone Plans** – This is a Sun Cellular service that provides subscribers one of the easiest ways to own a postpaid line as it requires only a valid ID.
- **Sun Elite Series** – This provides customers three unlimited services in one SIM. Sun Elite Plans are inclusive of a free high-end phone, 24/7 local Sun-to-Sun Call and Text Unlimited, Unlimited Mobile Internet and Unlimited local landline calls powered by SunTel Wireless Landline.
- **Sun Easy Postpaid** – This allows the subscribers to avail and enjoy the benefits of a Regular Plan but at the same time make the application process to be as easy as just presenting a valid ID.
- **Sun Double Unlimited Plus (SDU)** – This is a 2-in-1 SIM service that combines Sun’s mobile postpaid Call and Text Unlimited service with the SunTel wireless Landline service.
- **BlackBerry Service Plans** – These provide users with quality data services. Add-on Plans 649 and 350 enable subscribers to utilize the full potential of their existing BlackBerry® handheld through Sun’s BlackBerry® Internet Service. BlackBerry® Plan 999 offers subscribers not only a free BlackBerry® handheld but also unlimited Sun-to-Sun calls and texts, BlackBerry® service and mobile Internet. Users may also request for BlackBerry Service via SMS keywords. Available in 1 day, 3 days, 7 days and 30 day packages.
- **Sun Call & Surf** – This provides subscribers unlimited local Sun-to-Sun Calls & Texts plus unlimited Mobile Internet for only P999 with a free activated Android Handset.
- **Sun Plan 450** – This is a new service targeted for customers who have a mixed mobile lifestyle of calling, texting, and Internet browsing, particularly in checking emails, social networking sites and the latest news while being on-the-go. As another option to mobile internet, subscribers can choose Sun Plan 450 IDD where they get to call and text abroad for only P2 to key destinations.

## Prepaid Service

Sun Cellular’s Prepaid Service continues to attract more and more subscribers as its products are specifically designed to provide subscribers with the best-value choices tailored to fit their specific needs and wants.

Sun Cellular is known for its Call and Text Unlimited (CTU) products, which allow subscribers to enjoy 24 hours of Sun-to-Sun voice calls and texts for as low as P25 per day. Meanwhile, Sun’s Text Unlimited (TU)

products offer unlimited Sun-to-Sun SMS with free voice calls. For as low as P10, subscribers can have unlimited SMS and up to 5 minutes of calls to other Sun users for one day.

Sun Cellular's Regular loads can be used to call or text mobile users of Sun and/or other networks, make international calls and texts, and avail of Value Added Services such as downloading ringback tones and using the mobile internet. Sun Cellular's Regular loads can also be used to convert into Sun special loads.

- **Sun Call and Text Unlimited Superloaded** – Sun Cellular's flagship Prepaid product Call & Text Unlimited is now *Superloaded* with extra inclusions to give the subscriber more value for money along with their favorite unlimited Sun calls and unlimited Sun texts. All denominations now come with free texts to other networks and free minutes of Mobile Internet. The Sun Call & Text Unlimited **P25** denomination is valid for 1 day and gives subscribers free 10 texts to other networks and free 30 minutes of mobile internet. The **P100** denomination is valid for 5 days and comes with free 80 texts to other networks and free 30 minutes of mobile internet. There are also variants with longer validity periods and more free inclusions: **P150** gives you Sun Call & Text Unlimited for 7 days with free 100 texts to other networks, free P25 regular load and free 30 minutes of mobile internet, while **P450** lasts you for 30 days with free P50 regular load and free 90 minutes of mobile internet. This Superloaded good deal runs from December 18, 2010 to July 22, 2011.
- **Sun Text Unlimited** – Sun Cellular also offers unlimited Sun texts service with Sun Text Unlimited available in P10 valid for 1 day, P20 valid for 2 days, P50 valid for 7 days, and P150 valid for 30 days. Each product denomination also offers free minutes of Sun calls.
- **Sun Call and Text Combo (CTC)** – The **P10 Sun Call &Text Combo (CTC10)** provides 40 Sun texts, 10 minutes of Sun calls, and 10 texts to other networks. The **P20 Sun Call & Text Combo (CTC20)** variant, on the other hand, offers 80 Sun texts, 25 minutes of Sun calls, and 25 texts to other networks. Last in the lineup is the **P30 Call and Text Combo (CTC30)** which has 120 Sun texts, 40 minutes of Sun calls, and 40 texts to other networks.
- **Sun TextALL** – Sun TextALL empowers subscribers to connect with everyone regardless of the network they are using with 100 Sun texts and 50 texts to other networks for only P15 a day.
- **Sun Flexi Load** – Sun Flexiload offers subscribers special rates for calls and texts to Sun (as low as P0.50/call and P0.25/text) and to other networks (as low as P5.50/minute and P0.50/text). It comes in two variants: Flexi Load 30 and Flexi Load 50. Subscribers also have the option of converting their Flexi Load to other Sun special loads such as the Call and Text Unlimited (CTU) or the Call and Text Combo (CTC). Sun Flexi Load 50 is now a permanent product, while Flexi Load 30 will be available until August 31, 2011.
- **Sun Unlimited Mix** – Sun Unlimited Mix is the first 4-in-1 load product in the market that offers the combination of calls, text and mobile internet for as low as P25. It comes in two variants: P25 which has unlimited Sun texts, 20 texts to other networks, 15 minutes of Sun calls every hour and 15 minutes of mobile internet, all good for 1 day, and P100 which offers unlimited Sun texts, 100 texts to other networks, 15 minutes of Sun calls every hour and 75 minutes of mobile internet, all good for 5 days.
- **Sun Magic Zone SIM**– This is an exclusive Sun Prepaid offering in select regions such as: Mindanao, Panay, Bicol, and Samar-Leyte. This SIM offers unlimited calls and texts with the lowest, most affordable rates at only P10. The Sun Magic Zone SIMs can be loaded with very affordable loads so they could call and text other Sun Magic Zone SIM users and other Sun Cellular

subscribers in their region. The exclusive Sun Magic Zone loads comes in four variants for its unlimited call and text offering: P10 valid for one (1) day, P15 that comes with free 10 texts to other networks also valid for one (1) day, P50 valid for seven (7) days, and P200 valid for 30 days. Aside from this, Sun Magic Zone also offers the lowest unlimited text offerings: P5 valid for one (1) day, P25 valid for seven (7) days and P100 valid for 30 days. Regular Sun prepaid loads may also be converted to Sun Magic Zone loads. Besides these exclusive loads, this SIM can also be loaded with other Sun prepaid offers to be able to call and text Sun subscribers nationwide, other networks, and even relatives abroad, just like any other Sun prepaid SIM.

Other prepaid products include:

- **Sun P29 Super Budget SIM** - This SIM is a strong addition to the value-packed line-up of Sun Prepaid SIMs. This SIM has Unlimited Sun-to-Sun texts and 10 minutes of Sun-to-Sun calls all valid for one day. Being the most affordable SIM in the market to date, subscribers can easily enjoy the 'Unlimited' advantage Sun has to offer. This SIM also comes with free Facebook Updates. The free updates may be availed with no minimum balance requirement.
- **Sun P39 Super Combo SIM** – This SIM comes with 20 minutes Sun-to-Sun calls; 80 Sun-to-Sun texts and 20 texts to other networks all valid for 2 days. It also comes with five international texts to 20 countries valid for 30 days. The Super Combo also comes with free Facebook Updates. The free updates may be availed with no minimum balance requirement.
- **Sun P49 Call and Text International SIM** – This is geared towards families of Overseas Filipino Workers (OFWs) here in the Philippines wherein this Sun SIM allows subscribers to send international texts to 20 countries for only One Peso (USA, Canada, Singapore, Hong Kong, United Arab Emirates, Malaysia, Macau, Japan, Qatar, Brunei, Guam, Hawaii, Oman, Cayman Islands, Cyprus, Turkey, Northern Marianas Islands, Jamaica, Bahamas, and Puerto Rico). Other special rates to enjoy using this SIM are US\$0.10/min IDD call rate to 10 countries (USA, Canada, China, Hong Kong, Singapore, Thailand, Malaysia, Brunei, Guam, and Macau) and US\$0.20/min IDD call rate to 20 countries (Saudi Arabia, United Arab Emirates, India, Japan, Australia, South Korea, Taiwan, Italy, Indonesia, Hawaii, Kuwait, Bahrain, Germany, Spain, Israel, France, Greece, Jordan, Northern Marianas Islands, and Cyprus). When this SIM was launched last June 2008, the SIM has initial load inclusion of 5 minutes call to 10 countries and 5 international texts to 20 countries. Last July 2009, Sun Cellular added free load in this SIM – Unlimited Sun-to-Sun texts and 20 minutes of Sun-to-Sun calls, all valid for 2 days. Subscribers can now instantly get in touch with all their families and friends, here in the Philippines and abroad. This SIM also comes with free Facebook Updates. The free updates may be availed with no minimum balance requirement.
- **Sun P59 Super Value SIM** – This SIM comes with unlimited Sun-to-Sun calls and texts, 100 texts to other networks, plus 60 minutes of mobile internet surfing, all valid for two days. This also comes with five international texts to 20 countries valid for 30 days. The Super Value SIM also comes with free Facebook Updates. The free updates may be availed with no minimum balance requirement.
- **Free International Texts in Sun Prepaid SIMs** –The Sun P59 Super Value SIM, Sun P39 Super Combo SIM, and Sun P29 Super Budget SIM comes with an additional free load of five International texts to 20 countries. This is in addition to the current Prepaid SIM inclusions. Since the Sun P49 Call & Text International SIM already has free international load, now, all Sun Prepaid SIMs have free local and international load.

## New Business

Sun Cellular continues to strengthen its Sun Broadband Wireless (SBW) service. Sun Broadband Wireless service utilizes the most advanced 3.5G HSPA (High-Speed Packet Access) technology on an all-IP network. To address the various needs of the market, Sun Broadband Wireless has a wide range of plans and offerings to choose from:

### *Sun Broadband Wireless Postpaid*

- **SBW Anti-Bill-Shock Plan 350** – the plan comes with 35 hours of Internet use. Anything in excess of the consumable Internet usage will be billed at a cost of P10 per hour on top of the monthly subscription fee. The advantage of this plan, unlike any other product in the market, lies in the “anti-bill-shock cap” feature which protects Sun subscribers from unexpected charges by putting a maximum limit to the number of billable hours of Internet usage which is 90 hours. If a subscriber consumes Internet usage at a maximum equivalent of P900 monthly bill, the anti-bill-shock cap immediately takes effect giving the subscriber unlimited hours of online surfing at absolutely no extra charge.
- **SBW Plan 649** – This is the lowest unlimited broadband plan in the market with speeds of up to 3.6Mbps. Plan 649 is offered exclusively for existing Sun Cellular Postpaid subscribers, thus allowing them to enjoy CTU 24/7 and unlimited broadband for as low as P999 per month (Postpaid Plan 350 + SBW Plan 649).
- **SBW Plan 799** – This is for those subscribers who do not have a Sun Cellular Postpaid Plan. Under SBW Plan 799, customers get a free modem with a lock-in period of 24 months. And for those who do not want a lengthy lock-in period, they can avail of Easy Broadband 799 by just presenting a valid ID and paying upfront for the modem.
- **SBW Plan 1399** – This is for those who want more bandwidth with speed of up to 7.2Mbps.
- **3G-ready WiFi Routers** – This allows users to share their broadband connection via a 3G-ready WiFi router. This practically allows subscribers to set-up their own hotspot anytime, anywhere.
- **SBW Handset Promo** - This provides SBW subscribers a free phone (*with 1 month subscription*) when they subscribe to a Sun Broadband 649 or 749 Plan.
- **SBW Prepaid Kit P995** – This comes with a Sun Broadband USB stick modem plus 5 days of free unlimited Internet usage. With its plug and play convenience, subscribers can surf the world wide web in just a few minutes.
- **SBW Plan 350 Lite** – This is Sun’s most flexible mobile broadband postpaid plan as it offers 45 hours of internet service per month and allows subscribers to reload credits through SBW Prepaid load or Sun Regular load.

### *SBW Prepaid loads*

- **Regular Loads** – For P10 with internet usage valid for two hours.
- **SBW50**– It’s the first One-Day Unlimited load to hit the market that can be used by Sun Broadband Prepaid Subscribers as well as Sun Regular Prepaid Subscribers.

- **SBW100** – For P100, subscribers can enjoy 3 days of unlimited internet access. The service is for Sun Broadband Prepaid Subscribers and Sun Regular Prepaid Subscribers.
- **SBW 250** – With SBW 250, subscribers get one (1) week unlimited internet or as low as P35.71 per day.
- **SBW300** – This Prepaid internet load gives Sun Prepaid Broadband Subscribers and Sun Regular Load subscribers 48 hours of mobile internet valid for 10 days.

### Value-Added Services

Sun Cellular continues to keep its subscribers up to date with the latest value-added service offerings that are affordable and relevant to subscribers' wants and needs. Sun Value-Added Services include:

#### *Messaging Services*

- **Yahoo SMS Messenger** – Sun subscribers can login and chat on Yahoo Messenger through text. It's free to receive chat messages and costs only P2.00/reply.
- **GMail SMS** – This allows the subscribers to send text messages to their Sun friends from their Gmail account or reply to GMail SMS for just P0.50/text.
- **MMS** – Sun makes sharing images, video clips and sound files easy and convenient with Sun MMS (Multimedia Messaging Service). Each MMS sent to another Sun subscriber or to an e-mail address is just P1.00 while MMS sent to other networks is P2.00.
- **Sun iMessenger** – This is Sun Cellular's mobile instant messaging (IM) service that allows Sun Cellular subscribers to chat with their IM buddies on the largest IM services including Facebook, Yahoo Messenger, GTalk, AOL, MSN and ICQ. The Sun iMessenger Service is available on pay-per-use and unlimited subscription.
- **Chatxt** – This allows subscribers to send and receive messages to groups with up to 30 Sun members for just P2/text.

#### *Social Networking Services*

- **Facebook Zero** – This is a Sun Exclusive. Sun subscribers get unlimited access to their Facebook accounts with zero data charges. To access Facebook Zero, all that is required is a GPRS activated sim card and handset. Facebook Zero is a free text-only mobile version of Facebook. Regular mobile internet browsing rates of P10 per 30 minutes apply when viewing photos or external links.
- **Facebook Mobile Texts** – This allows Sun subscribers to receive free Facebook text alerts on their Sun phones. They can also send status updates, post comments, poke contacts, search for contacts, send messages and more via text for only P0.50.
- **Sun Alertz** – This service allows Sun subscribers to send tweets and status updates on their favorite social networking sites including Facebook and Twitter for just P1/text. Unlimited packages to send and receive alerts are also available at affordable rates of P15/day, P50/week or P150/month.

#### *Sun Mobile Internet*

Sun Mobile Internet offers quality broadband speeds of up to 2Mbps with its 3G/HSDPA network, at affordable prices. Sun subscribers can access various internet services like email, search, chat, and the

leading social networking sites such as Facebook, Twitter and Foursquare, through their mobile phones with absolutely no need for a PC or a laptop.

- **P10/30 Minutes** – This is the regular browsing rate for mobile internet. This allows subscribers to view their favorite sites for only P10 for 30 minutes. This default charge applies to both prepaid and postpaid subscribers.
- **iLoads** – These are special loads for both postpaid and prepaid subscribers who seek to maximize their budgets. Numerous types of iLoads are offered to meet the differing demands of both prepaid and postpaid subscribers.
  - **i25** – This load allows subscribers to go online via their mobile phones for 3 hours. This is valid for 1 day and costs only P25.
  - **i50** – This load provides 24 hours of unlimited mobile internet connection for just P50.
  - **i100** – This load offers is a 3-day unlimited mobile internet service for P100.
  - **i250** – This load provides 7 days of unlimited mobile internet access for only P250.
  - **i999** – This load provides subscribers with 30 days on mobile internet for only P999.
- **iPlans** – These are mobile internet service plans which postpaid subscribers may add on to their existing postpaid lines where the charges are added on to their monthly service fee. Subscribers may subscribe to iPlans by going to the Sun Shop or calling 200 on their mobile phones.
  - **iPlan 149** – This iPlan is specifically designed for light users who need only 20 hours of mobile internet in a month. This is perfect for people on the go who have a need to check emails. This iPlan costs only P149 per month and is added to the monthly service fee.
  - **iPlan 399** - iPlan 399 caters to subscribers who feel the need to stay connected to the internet for emailing and social networking but would still like to keep within their budgets. This iPlan costs only P399 per month and is added to the monthly service fee.
  - **iPlan 649** – This iPlan is made for the heavy internet users. These users find that being constantly connected to the net, to be able to access Facebook, Twitter or Yahoo Messenger, is a necessity. This iPlan costs only P649 per month and is added to the monthly service fee.

#### *More Value-Added Services*

- **SMS2EMAIL** – This service lets subscribers experience the ease and convenience of sending and receiving e-mail on their phone via text. Unlimited packages to send and receive email are also available at affordable rates of P15/day, P50/week or P150/month.
- **Sun DialTunes** – This is Sun Cellular's ring back tone service. This service allows subscribers to personalize their ring back tone with songs and sounds of their choice. Sun subscribers can choose from Sun Cellular's vast collection of music tracks, comic spoofs, sound effects and even celebrity recordings.
- **Give-a-Load** – With its enhanced features, subscribers can give all of the Sun load variants to other Sun subscribers. This means that regular load, unlimited, and combo call and text product can all be sent to fellow Sun subscribers.
- **Gimme Load** – This allows Sun subscribers to ask for load from their family and friends in the Sun network for free. Sun prepaid subscribers can request for load up to three (3) times per day.

## International Services

### **GSM**

#### *IDD Services*

- **Sun Todo IDD Tawag Card** – Offers the lowest international call from Sun. For only P2 per minute, prepaid subscribers can call the U.S. (Main), Canada, Hong Kong, Singapore, China, Guam and Hawaii. This card also offers P5 per minute to call other countries like Australia, Taiwan, South Korea, Malaysia and Macau. Sun Todo IDD Tawag Card is available in P300, P100 and P50 denominations, Xpress Load and load conversion.
- **Sun IDD 10** - Offers an affordable IDD rate to all Sun subscribers of only US \$0.10 per minute for calls made to the U.S. (main), China, Hong Kong, Canada, Singapore, Thailand, Malaysia, Brunei, Guam, and Macau. There are no registration, no access codes and no special card needed.
- **Sun IDD 30** - All Sun Cellular subscribers can enjoy savings with Sun's Regular IDD rate of only US \$0.30 per minute to Japan, Saudi Arabia, the United Arab Emirates, Australia, the United Kingdom, Italy, Germany, Spain and over 180 countries.

#### *International SMS/MMS*

- **Sun International SMS (iSMS)** - All Sun Cellular subscribers can send international text messages to over 200 countries for only P9 per international text.
- **Sun International MMS (iMMS)** - Sun subscribers can send pictures, music, videos and other multimedia messages to their loved ones to over 200 countries. Sun iMMS are P5 per message for content up to 100Kb and P10 per message for content up to 300Kb.

#### *International Roaming Services*

- **Postpaid Roaming** - Postpaid Sun subscribers can roam in 200 countries with over 300 roaming partners.
- **Prepaid Roaming** - Prepaid Sun subscribers can roam initially in the U.S., Hong Kong, China, Singapore, Malaysia and Macau.
- **Data Roaming** – GPRS roaming is available in over 80 countries.
- **Budget Roaming Text** – Sun subscribers can send text messages to the Philippines while roaming abroad for only P5/message via Unstructured Supplementary Services Data (USSD).
- **Budget Roaming Call** – Sun postpaid subscribers can enjoy up to 75% on their roaming calls while abroad via USSD.

## Sun Business (SMEs and Corporate)

Sun Business is Sun Cellular and Digitel's Corporate and Business Solutions arm, which presents itself as the client's complete telecommunications partner. It provides value-for-money wired and wireless voice, data,

and specialized services so that clients could operate more efficiently. Other than the regular products mentioned above, the following are the additional products being offered:

*Pro-Efficiency Specialized Solutions*

- **Track & Trace** – This service allows clients to monitor the status and condition of their valuable assets and personnel through Global Positioning System (GPS) and GSM network 24 hours, 7 days a week and in real time. Clients can plan their business efficiently by using the reports that the application will generate for them.
- **Mobile Pay** – This service provides clients a Wireless point-of-sale (POS) system for mobile selling of their goods. Clients get to receive debit and credit card payments without added cost of wired lines with a competitively priced wireless POS. The POS uses Sun’s superior GPRS connectivity, accepts major credit cards, and is covered by fire insurance. Clients are also provided with on-call maintenance and help desk facility.
- **Message Cast** – This is a Web-based messaging service that allows clients to send and broadcast SMS to one or multiple recipients across all networks. Clients can make sure that their employees and customers are updated of the latest events and promos.
- **MobiServe** – This is a customer service support center solution that allows companies to deploy a help desk or hotline system for their customers over SMS. Clients get to improve their operations by efficiently tracking and resolving customer issues.
- **Sun Cash** – This service is an easy-to-setup mobile payment gateway that offers 24/7 service availability with real-time payment credit. Clients can have a secure community based payment gateway via their Sun Mobile Phone.
- **Corporate Xpress Load** – This is a hassle-free and efficient web-based application that allows clients to load to multiple recipients. Clients can easily manage their companies’ communication expenses. This is particularly for clients with load allowance allocations for their employees and outsourced agents.
- **Mobile Report Manager** – This is a web-based solution that enables companies to receive field reports via mobile phones
- **Gatekeeper** – This solution which is ideal for schools, helps ensure the safety of students as it automatically informs students' parents and guardians every time they enter and leave the school premises through text message

*Pro-Stability Premium Solutions*

*Data Services*

- **Domestic Leased Lines** –This service delivers fast, reliable and secure dedicated point-to-point connection from the client’s head office to the rest of the country, 24 hours a day, 7 days a week

with speeds ranging from 64 Kbps up to 155 Mbps. It is an ideal tool in exchanging critical information for data, voice or video.

- **International Private Leased Circuit** – Clients are ushered to the global business arena by providing them with global reach through dedicated point-to-point connections that span from the Philippines to the United States and Asia Pacific. This is delivered through strategic partnerships with major international carriers. Sun Business owns a Point-of-Presence (POP) in Los Angeles, California and a partnership with foreign operators to offer international last mile facilities.

### *Internet Services*

- **Dedicated Internet Access** – This service offers high-speed solutions for growing businesses that need high performance and full time dedicated internet access. This service offers a range of options to suit their access needs and support all their mission-critical communications.
- **Bandwidth On Demand (BOD)** – This service allows customers to utilize bandwidth over and above their subscribed plan. Higher bandwidth is made available to the customer anytime its business requires, without the hassle of application for an upgrade of service.
- **DSL** - Sun Business DSL delivers the speed the clients' need for performing bandwidth-intensive network tasks, but costs only a fraction of the price of E1 and other dedicated access services. This business-grade broadband connection allows businesses to realize more productivity and cost savings right away.

### *Managed Services*

- **Managed Router** – This service enhances end-to-end management of the clients' network which includes installation, configuration, monitoring and management of routers. It improves network performance and availability by extending expert monitoring and management of the clients' routers.

### *Voice Services*

- **Local Service, NDD/CMTS, IDD** – This service allows clients to reach their customers in any destination, be it local, national, mobile and international, at very competitive per minute rates.
- **Foreign Exchange Service (FEX)** – This service provides similar Local Phone Service to clients. Their phone numbers are provisioned in another Digitel Serving Exchange which, in effect, eliminates the national toll charges for the inbound and outbound calls. This is offered to customers with heavy volume of NDD calls.
- **E1R2 Service** – This service provides channelized E1 networks for Voice Service terminated at the clients' Central Office or Private Branch Exchange. It provides 30 Voice Channels at 64Kbps per channel. This service is ideal for large businesses.

### ***IP-Based Services***

- **Internet Protocol Virtual Private Network (IPVPN)** – This is a cost-effective, secure, reliable and scalable way of building a private network for companies based on MPLS or Multi-Protocol Label Switching technology. IPVPN sites are fully-meshed and support any-to-any connectivity with end-to-end quality of service (QoS). It is well-suited for converged voice, data and video applications.
  
- **IP Centrex** – This is a voice service using Voice over Internet Protocol (VoIP), where all subscribed phones have built-in PABX functionality. Sun Business' Softswitch provides all the necessary call control and service logic functions. Sun Business IP Centrex frees the clients from the costs, responsibilities and headaches of PBX ownership. Clients can call all their officemates via shortened 4-digit numbers toll free wherever they may be.

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**Financial Highlights and Key Performance Indicators**

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)	Increase Amount	%
(in Php 000s, except for net debt to equity ratios, EBITDA and net income margins, earnings per share, operational data and exchange rates)				
<b>Consolidated Statements of Financial Position</b>				
Total assets	91,275,694	90,796,669	479,025	1
Property and equipment - net	81,446,226	81,326,911	119,315	0
Cash and cash equivalents	1,291,708	1,107,231	184,477	17
Total Equity	60,190	44,515	15,675	35
Interest-bearing financial liabilities				
<i>Bonds Payable and long-term debt</i>	39,245,018	33,160,605	6,084,413	18
Net debt to equity ratio	631x	720x	-	-
	630.55	720.05		
	<b>Nine Months Ended September 30</b>		<b>Increase (Decrease)</b>	
	2011	2010	Amount	%
		(Unaudited)		
<b>Consolidated Statements of Comprehensive Income</b>				
Revenues	14,025,858	12,124,984	1,900,874	16
Cost and Operating Expenses	12,734,761	10,546,800	2,187,961	21
Income (loss) before income tax	(61,231)	1,598,291	(1,659,522)	(104)
EBITDA	5,216,093	4,236,154	979,939	23
EBITDA Margin	37.7%	35.4%		
Net Income	15,675	850,833	(835,158)	(98)
Net Income margin	0.1%	7.0%		
Earnings per share	0.002	0.134	(0.132)	(99)
<b>Consolidated Statements of Cashflows</b>				
Net cash provided by operating activities	5,611,382	5,074,130	537,252	11
Net cash used in investing activities	4,839,705	7,212,239	(2,372,534)	(33)
<i>Capital Expenditures</i>	3,533,824	6,100,724	(2,566,900)	(42)
Net cash provided by (used in) financing activities	(825,644)	2,160,383	(2,986,027)	(138)
<b>Operational Data</b>				
<b>Number of cellular subscribers</b>	<b>15,571,318</b>	<b>14,890,428</b>	680,890	5
<b>Number of fixed lines in service</b>	<b>344,602</b>	<b>323,784</b>	20,818	6
<b>Number of broadband subscribers</b>	<b>541,706</b>	<b>368,989</b>	172,717	47
<i>Fixed Line</i>	<i>137,949</i>	<i>134,987</i>	2,962	2
<i>Wireless</i>	<i>403,757</i>	<i>234,002</i>	169,755	73
<b>Exchange Rates</b>				
	<b>Php per US\$</b>			
September 30, 2011	43.72			
December 31, 2010	43.84			
September 30, 2010	43.88			
December 31, 2009	46.20			

## Results of Operations

Provided below is a table summarizing revenue and expense contribution for the nine months ended September 30, 2011 and 2010, by each business segment:

2011 (in PHP 000s)	Wireless Communication Services	Wireline Voice Communication Services	Wireline Data Communication Services	Eliminations	Total
Service and nonservice revenues	11,652,826	2,007,813	365,219	-	14,025,858
Cost and operating expenses	7,113,701	1,568,725	127,339	-	8,809,765
<i>Network-related and General expenses</i>	<i>5,514,635</i>	<i>1,355,469</i>	<i>127,275</i>	-	<i>6,997,379</i>
<i>Cost of sales</i>	<i>1,444,187</i>	<i>114,280</i>	<i>64</i>	-	<i>1,558,531</i>
<i>Impairment losses and others</i>	<i>154,879</i>	<i>98,976</i>	<i>0</i>	-	<i>253,855</i>
EBITDA	4,539,125	439,088	237,880	-	5,216,093
Depreciation and amortization	3,182,606	632,447	109,943	-	3,924,996
EBIT	1,356,519	(193,359)	127,937	-	1,291,097
Other income (charges) - net	41,420	(1,393,745)	(3)	-	(1,352,328)
Income (loss) before income tax	1,397,939	(1,587,104)	127,934	-	(61,231)
Provision for (benefit from) income tax	414,615	(491,270)	(251)	-	(76,906)
Net income (loss)	983,324	(1,095,834)	128,185	-	15,675
Segment assets	74,016,178	67,969,294	1,665,232	(52,375,010)	91,275,694
Segment liabilities *	49,117,060	65,878,425	559,381	(27,412,037)	88,142,829

2010 (in PHP 000s)	Wireless Communication Services	Wireline Voice Communication Services	Wireline Data Communication Services	Eliminations	Total
Service and nonservice revenues	9,533,573	2,232,463	358,948	-	12,124,984
Cost and operating expenses	6,353,251	1,410,690	124,889	-	7,888,830
<i>Network-related and General expenses</i>	<i>4,774,020</i>	<i>1,173,234</i>	<i>124,760</i>	-	<i>6,072,014</i>
<i>Cost of sales</i>	<i>1,464,508</i>	<i>110,589</i>	<i>129</i>	-	<i>1,575,226</i>
<i>Impairment losses and others</i>	<i>114,723</i>	<i>126,867</i>	<i>0</i>	-	<i>241,590</i>
EBITDA	3,180,322	821,773	234,059	-	4,236,154
Depreciation and amortization	1,941,015	603,210	113,745	-	2,657,970
EBIT	1,239,307	218,563	120,314	-	1,578,184
Other income (charges) - net	591,738	(572,171)	540	-	20,107
Income (loss) before income tax	1,831,045	(353,608)	120,854	-	1,598,291
Provision for (benefit from) income tax	549,282	198,382	(206)	-	747,458
Net income (loss)	1,281,763	(551,990)	121,060	-	850,833
Segment assets	69,486,348	66,641,955	1,436,856	(46,698,509)	90,866,650
Segment liabilities *	48,057,203	60,410,233	484,370	(23,735,533)	85,216,273

\* Segment liabilities of the Digital Group do not include net deferred income tax liabilities

Digitel's consolidated service and non-service revenues grew 15.7% for the nine months ended September 30, 2011, up from last year's P12,125.0 million to P14,025.9 million. This was driven mainly by the 22.2% increase in the wireless business brought about by an aggressive drive to increase market share through subscribers acquisition efforts and regionalized product offerings.

For the third quarter of 2011, consolidated service revenues amounted to P4,694.1 million, slightly higher than the second quarter of 2011 and 14.6% higher than the same period of last year.

Further, amidst a highly competitive environment, Digitel continues to manage its cost and operating expenses (excluding depreciation and amortization), improving ratio for the nine months ended September 30, 2011 to 62.8% from 65.1% during the same period last year.

Accordingly, consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) for the period ended September 30, 2011 improved by 23.1% to P5,216.1 million, from P4,236.2 million during the same period in 2010 due primarily to the higher service and non-service revenues generated by the wireless business. EBITDA ratio also improved in 2011 to 37.7% from 35.4% in 2010.

Consolidated EBITDA for the third quarter of 2011 amounted to P1,789.1 million, lower by 6.5% against the second quarter of 2011 but 20.2% better than same period last year.

Net income for the period amounted to P15.7 million, compared to last year's P850.8 million.

### Wireless

The wireless communication services posted a 22.2% growth in operating revenues to P11,652.8 million during the nine-month period ended September 30, 2011 from P9,533.6 million during the same period last year. This is significantly attributable to the continued success of the unlimited service portfolio particularly the Text Unlimited products which increased by 41.4%. Voice usage and SMS usage revenues likewise increased by 23.2% and 12.4%, respectively, due to the increase in subscriber count and introduction of new products and services. Further, broadband revenues almost doubled during the nine months ended September 30, 2011 as compared to the same period last year.

Quarter-on-quarter, service revenues slightly improved against the second quarter of 2011 and 20.7% higher than the third quarter of last year.

As at September 30, 2011, net cumulative subscribers stood at 16.0 million. Postpaid subscribers account for 1.5 million, an improvement of 23.0% from 1.2 million subscribers as at December 31, 2010. Likewise, prepaid subscribers grew to 14.5 million as at September 30, 2011 from 12.8 million as at December 31, 2010.

Cost and operating expenses (excluding depreciation and amortization) increased by 12.0% as against the same period of last year owing to extensive network rollouts. However, cost ratio improved to 61.0% in 2011 from 66.6% in 2010.

Accordingly, the wireless business segment registered a positive EBITDA of P4,539.1 million during the three quarters of 2011, a 42.7% improvement from last year's EBITDA of P3,180.3 million.

### **Wireline Voice**

The wireline voice communication services registered service revenues of P2,007.8 million for the nine months ended September 30, 2011. This is 10.1% lower than last year's P2,232.5 million mainly due to lower revenues from international and domestic tolls, and local exchange partially offset by the growth of Suntel products which registered an increase of 114% over last year.

Consequently, EBITDA decreased to P439.1 million for the nine months ended September 30, 2011 from P821.8 million in 2010.

### **Wireline Data Communication Services**

Revenues for wireline data communication services for the nine months ended September 30, 2011 slightly increased to P365.2 million compared to last year's P358.9 million. This was due to the increase in domestic data and internet services through its IP VPN services new subscriptions.

Operating expenses for the nine months ended September 30, 2011 increased by 2.0% to P127.3 million from last year's P124.9 million mainly due to higher network related and general expenses.

EBITDA increased from P234.1 million in 2010 to P237.9 million for the nine months ended September 30, 2011.

### **Financial Position**

As of September 30, 2011, consolidated total assets amounted to P91,275.7 million from P90,796.7 million at the end of 2010.

Cash and cash equivalents increased by P184.5 million or 16.7% due mainly to cash provided by operating activities.

Net receivables amounted to P2,519.6 million, an increase of P447.7 million or 21.6% due mainly to additional trade receivables brought about by the growth in service revenues.

Inventories increased by P112.2 million or 36.0% due mainly to higher handsets, phonekits, SIM cards and callcards purchased over the units sold during the period.

Derivative assets decreased by P120.4 million or 21.1% due mainly to mark-to-market valuation loss recognized on bond call option.

Value-added input tax and other current assets decreased to P1,891.4 million in 2011 from P2,481.6 million in 2010 due to lower value-added input tax balance as of September 30, 2011.

Property and equipment, net of accumulated depreciation, amounted to P81,446.2 million as of September 30, 2011. This is an increase of P119.3 million from year-end's figure of P81,326.9 million.

Value-added input tax and other noncurrent assets increased by 11.1% to P325.9 million due to additional deferred subscribers acquisition and retention costs and value-added input tax.

Accounts Payable and accrued expenses decreased by 5.2% or P472.5 million due to settlement of various liabilities during the period.

Bonds payable increased to P19,381.7 million from P17,898.7 million in 2010 due mainly to the amortization of bond discount.

Long-term debts (current and non-current) aggregating to P19,863.3 million consisted of loans from foreign and local banks as of September 30, 2011.

Other noncurrent liabilities including deferred income tax liabilities decreased by P5,148.6 million due mainly to lower accrued network projects.

Capital stock stood at P8,975.7 million while equity reserves and accumulated deficit amounted to P1,831.2 million and P7,084.4 million, respectively as of September 30, 2011.

Consolidated net cash flow provided by operating activities for the nine months ended September 30, 2011 amounted to P5,611.4 million compared to P5,074.1 million in the same period last year. Net cash used in financing activities amounted to P825.6 million for the nine months ended September 30, 2011, as compared with net cash provided by financing activities of P2,160.4 million in 2010.

## **PART II OTHER INFORMATION**

### **PLDT's Acquisition of Digital Telecommunications Phils., Inc., or Digitel**

On March 29, 2011, the Board Directors of JGSHI and PLDT, approved the acquisition by PLDT of JGSHI's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010 (the "Assets").

PLDT agreed to pay JGSHI and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets.

The acquisition was completed on October 26, 2011 following the issuance by the SEC on July 29, 2011 of the confirmations of the valuation of the Assets and that the issuance of the PLDT common shares to JGSHI and the other seller-parties is exempt from the registration requirement of the SRC, by the NTC on October 26, 2011 of the approval of the sale or transfer of JGSHI and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock, and by the PSE on October 26, 2011 of the approval of the block sale of the Digitel shares.

Under the Securities Regulation Code, or SRC, PLDT is required to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the remaining non-controlling shareholders of Digitel upon completion of the acquisition of 51.55% interest. Under the tender offer, PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of Digitel shareholders. The tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the

tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel.

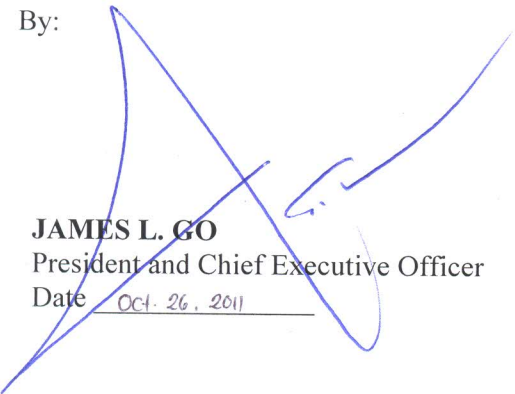
Digitel and DMPI have outstanding long-term debts that are guaranteed by JGSHI. The loans and guarantees contain representations and covenants applicable only to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI have provided the necessary notices and obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGSHI by PLDT as guarantor under these loans. The amendments to the covenants and the PLDT guarantee will take effect upon completion of the acquisition.

**SIGNATURES**


Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

**DIGITAL TELECOMMUNICATIONS PHILS., INC**

By:



**JAMES L. GO**  
President and Chief Executive Officer  
Date Oct. 26, 2011



**JAIME I. CABANGIS**  
Chief Financial Officer  
Date Oct. 26, 2011

DIGITAL TELECOMMUNICATIONS PHILS., INC.  
AND SUBSIDIARIES

Consolidated Financial Statements  
September 30, 2011 (Unaudited) and December 31, 2010 (Audited)  
and Nine-month Period Ended September 30, 2011 and 2010 (Unaudited)

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30 2011 (Unaudited)	December 31 2010 (Audited)
(In Thousand Pesos)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6, 19 and 20)	P 1,291,708	P 1,107,231
Receivables - net (Notes 7, 19 and 20)	2,519,576	2,071,924
Inventories (Note 8)	423,575	311,342
Derivative assets (Notes 19 and 20)	451,355	571,730
Value-added input tax and other current assets (Note 9)	1,891,441	2,481,618
<b>Total Current Assets</b>	<b>6,577,655</b>	<b>6,543,845</b>
<b>Noncurrent Assets</b>		
Property and equipment - net (Notes 10 and 21)	81,446,226	81,326,911
Value-added input tax and other noncurrent assets (Notes 11, 19 and 20)	3,251,813	2,925,913
<b>Total Noncurrent Assets</b>	<b>84,698,039</b>	<b>84,252,824</b>
	<b>P 91,275,694</b>	<b>P 90,796,669</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 12, 19 and 20)	P 8,674,850	P 9,147,319
Current portion of long-term debt (Notes 14, 19 and 20)	2,948,613	3,004,206
<b>Total Current Liabilities</b>	<b>11,623,463</b>	<b>12,151,525</b>
<b>Noncurrent Liabilities</b>		
Deferred income tax liabilities	3,072,675	3,391,740
Bonds payable (Notes 13 and 20)	19,381,685	17,898,740
Long-term debt - net of current portion (Notes 14, 19 and 20)	16,914,720	12,257,659
Due to related parties (Notes 17, 19 and 20)	34,118,544	34,118,544
Other noncurrent liabilities (Note 15)	6,104,417	10,933,946
<b>Total Noncurrent Liabilities</b>	<b>79,592,041</b>	<b>78,600,629</b>
<b>Total Liabilities</b>	<b>91,215,504</b>	<b>90,752,154</b>
<b>Equity (Note 16)</b>		
Paid-up capital	8,975,749	8,975,749
Equity Reserves	(1,831,163)	(1,831,163)
Deficit	(7,084,396)	(7,100,071)
<b>Total Stockholders' Equity</b>	<b>60,190</b>	<b>44,515</b>
	<b>P 91,275,694</b>	<b>P 90,796,669</b>

See accompanying Notes to Consolidated Financial Statements.

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	For the Nine Months Ended		For the Three Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
(In Thousand Pesos, Except Earnings Per Share Amounts)				
<b>REVENUE</b>				
Service revenue	P 13,821,386	P 11,965,773	P 4,694,124	P 4,094,796
Nonservice revenue	204,472	159,211	69,745	54,935
	<b>14,025,858</b>	<b>12,124,984</b>	<b>4,763,869</b>	<b>4,149,731</b>
<b>COSTS AND OPERATING EXPENSES</b>				
Network-related and general expenses	6,997,379	6,072,014	2,325,955	2,016,388
Depreciation and amortization (Note 10)	3,924,996	2,657,970	1,368,702	977,187
Cost of sales	1,558,531	1,575,226	544,082	512,757
Impairment losses and others	253,855	241,590	104,696	131,677
	<b>12,734,761</b>	<b>10,546,800</b>	<b>4,343,435</b>	<b>3,638,009</b>
<b>EXCESS OF REVENUE OVER</b>				
<b>COSTS AND OPERATING EXPENSES</b>	<b>1,291,097</b>	<b>1,578,184</b>	<b>420,434</b>	<b>511,722</b>
<b>Other (Charges) Income - net</b>	<b>(1,352,328)</b>	<b>20,107</b>	<b>(696,609)</b>	<b>856,955</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(61,231)</b>	<b>1,598,291</b>	<b>(276,175)</b>	<b>1,368,677</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	<b>(76,906)</b>	<b>747,458</b>	<b>(144,834)</b>	<b>663,245</b>
<b>NET INCOME (LOSS)</b>	<b>P 15,675</b>	<b>P 850,833</b>	<b>P (131,341)</b>	<b>P 705,432</b>
<b>EARNINGS (LOSS) PER SHARE (Note 23)</b>	<b>P 0.002</b>	<b>P 0.134</b>	<b>P (0.021)</b>	<b>P 0.111</b>

See accompanying Notes to Consolidated Financial Statements.

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited)**

For the Nine Months Ended September 30, 2011										
Paid-Up Capital										
		Capital		Additional			Equity		Total	
		Stock		Paid-in		Total	Reserves	Deficit	Equity	
		(Note 16)		Capital						
(In Thousand Pesos)										
Balances as of December 31, 2010	P	6,356,976	P	2,618,773	P	8,975,749	P	(1,831,163)	P	44,515
Net income during the period								15,675		15,675
Balances as of September 30, 2011	P	6,356,976	P	2,618,773	P	8,975,749	P	(1,831,163)	P	60,190

For the Nine Months Ended September 30, 2010										
Paid-Up Capital										
		Capital		Additional			Equity		Total	
		Stock		Paid-in		Total	Reserves	Deficit	Equity	
		(Note 16)		Capital						
(In Thousand Pesos)										
Balances as of December 31, 2009	P	6,356,976	P	2,618,773	P	8,975,749	P	-	P	1,349,046
Net income during the period								850,833		850,833
Balances as of September 30, 2010	P	6,356,976	P	2,618,773	P	8,975,749	P	-	P	2,199,879

*See accompanying Notes to Consolidated Financial Statements.*

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>For the Nine Months ended</b>			
	<b>September 30</b>			
	<b>2011</b>		<b>2010</b>	
	(In Thousand Pesos)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income (loss) before income tax	P	(61,231)	P	1,598,291
Adjustments for:				
Depreciation and amortization (Note 10)		3,924,996		2,657,970
Foreign exchange and market valuation losses		(71,444)		(1,144,724)
Interest expense		1,622,051		1,094,692
Amortization of deferred subsidies (Note 11)		1,174,967		1,130,040
Impairment losses and others		253,855		241,590
Accretion of asset retirement obligation		45,191		31,712
Interest income		(44,280)		(26,444)
Operating income before changes in operating assets and liabilities		<b>6,844,105</b>		5,583,127
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables - net		(730,085)		(70,687)
Inventories		(111,885)		(30,326)
Value-added input tax and prepayments		395,188		(187,017)
Increase (decrease) in:				
Accounts payable and accrued expenses		(671,487)		(26,515)
Unearned revenue		(104,457)		52,014
Net cash generated from operations		<b>5,621,379</b>		5,320,596
Interest received		44,280		25,227
Income taxes paid		(40,102)		(13,285)
Interest paid		(14,175)		(258,408)
Net cash provided by operating activities		<b>5,611,382</b>		5,074,130
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment		(3,533,824)		(6,100,724)
Increase in other noncurrent assets		(1,305,881)		(1,111,515)
Net cash used in investing activities		<b>(4,839,705)</b>		(7,212,239)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from long-term liabilities		6,384,228		4,264,221
Payment of long-term liabilities		(2,247,379)		(2,002,263)
Decrease in other noncurrent liabilities		(4,962,493)		(101,575)
Net cash provided by (used in) financing activities		<b>(825,644)</b>		2,160,383
<b>NET FOREIGN EXCHANGE DIFFERENCE</b>		<b>238,444</b>		178,552
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>184,477</b>		200,826
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>1,107,231</b>		1,112,695
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>P</b>	<b>1,291,708</b>	<b>P</b>	<b>1,313,521</b>

See accompanying Notes to Consolidated Financial Statements.

**DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

Digital Telecommunications Phils., Inc. (the Parent Company) is incorporated in the Philippines and enfranchised to provide domestic and international telecommunications services nationwide. The Parent Company's registered office address is URC Compound, 110 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

The financial statements of the Parent Company and its wholly owned subsidiaries (the Group) are consolidated into JG Summit Holdings, Inc. (JGSHI or the ultimate parent), as the ultimate parent has the ability to govern the financial and operating policies of the Group. The ultimate parent owns 49.6% of the Group as of September 30, 2011.

The Parent Company owns 100% of the following companies:

- Digitel Mobile Philippines, Inc. (DMPI), which is incorporated in the Philippines and enfranchised under Republic Act (RA) No. 9180 to construct, install, establish, operate and maintain wire and/or wireless telecommunications systems throughout the Philippines;
- Digitel Capital Philippines Ltd. (DCPL), which is incorporated in the British Virgin Islands to engage in any activity allowed under any law of the British Virgin Islands; and
- Digitel Information Technology Services, (DITSI) Inc., which is incorporated in the Philippines to provide internet access and high-speed data transmission to corporate and individual customers. DITSI, however, became dormant following the decision of the Board of Directors (BOD) on March 12, 2002 to integrate its operations into the Parent Company.

The Parent Company is a grantee of various authorizations from the National Telecommunications Commission (NTC) as follows:

1. Certificates of Public Convenience and Necessity (CPCN) to: (a) install, operate, maintain and develop telecommunications facilities in Regions I to V; (b) install, operate and maintain telephone systems/networks/services in Quezon City, Valenzuela City and Malabon, Metro Manila and Tarlac; (c) install, operate and maintain an International Gateway Facility (IGF) in Binalonan, Pangasinan; (d) install, operate and maintain an IGF in Metro Manila; (e) operate and maintain a National Digital Transmission Network; (f) install, operate and maintain a nationwide CMTS using GSM and/or CDMA technology; and (g) install, operate and maintain a cable landing station.
2. Provisional Authorities (PAs) to: (a) install, operate and maintain Local Exchange Carrier (LEC) services in the National Capital Region (NCR); and (b) install, operate and maintain LEC services in Visayas and Mindanao.

The Parent Company is registered with the Board of Investments (BOI) and is entitled to incentives on a pioneer and nonpioneer status as a new operator of telecommunications systems on nationwide CMTS-GSM communication and as an expanding operator of public telecommunications services and IGF-2, respectively (Note 22).

On December 14, 2006, DMPI was registered with the BOI and is entitled to incentives on a pioneer status as a new operator of 3G infrastructure and telecommunications system (Note 22).

On December 28, 2005, the NTC awarded a 3G frequency assignment to DMPI after finding it legally, financially and technically qualified to undertake 3G services. On January 3, 2006, DMPI confirmed its choice of 3G bandwidth with the NTC.

On October 10, 2003, the BOI registration was transferred to DMPI, subject to certain conditions. Under the terms of the BOI registration, DMPI is entitled to certain incentives, including among others, an income tax holiday (“ITH”) for a period of six years from January 1, 2003. Subsequently, the ITH of DMPI expired on January 1, 2009.

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## 2. Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for certain derivative financial instruments that are measured at fair value. There are no items representing other comprehensive income as of and for the period ended September 30, 2011 and 2010.

The consolidated financial statements of the Group are presented in Philippine Peso (₱) and all values are rounded to the nearest thousands (₱000), except when otherwise indicated. The functional and presentation currency of the Parent Company and its subsidiaries (except DCPL) is the Philippine Peso (₱). The functional currency of DCPL is the US Dollar (Note 4 - Foreign Currency Transactions and Translation).

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

### Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Parent Company and its subsidiaries as of and for the periods ended September 30, 2011 and 2010. Details of the subsidiaries follow:

<u>Name of Subsidiary</u>	<u>Country of Incorporation</u>	<u>Percentage of Ownership</u>
DMPI	Philippines	100%
DCPL	British Virgin Islands	100%
DITSI	Philippines	100%

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and losses, are eliminated during consolidation in accordance with the accounting policy on consolidation.

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### 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations which became effective January 1, 2010. Except as otherwise indicated, the adoption of these new and amended Standards and Interpretations did not have a significant impact on the consolidated financial statements.

- **PFRS 2, *Share-based Payment (Amended): Group Cash-settled Share-based Payment Transactions***  
The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have an impact on the financial position or performance of the Group.
- **PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements***  
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. 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 combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

- **PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items***  
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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- **Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners***  
This Philippine Interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The Philippine Interpretation has no effect on either, the financial position or the performance of the Group.

#### *Improvements to PFRS*

Improvements to PFRS, an omnibus of amendments to standards, deal 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 but did not have any impact on the financial position or performance of the Group.

#### *Improvements to PFRS 2008*

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

#### *Improvements to PFRS 2009*

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statement of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC-16, *Hedges of a Net Investment in a Foreign Operation*

#### Future Changes in Accounting Policies

The Group will adopt the following standards, interpretations and amendments to standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

#### *Effective in 2011*

##### *PAS 24, Related Party Disclosures (Amended)*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

##### *PAS 32, Financial Instruments: Presentation (Amended)*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

##### *Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement*

The amended Philippine Interpretation is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*.

The Philippine Interpretation is effective for annual periods on or after July 1, 2010. This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

#### *Improvements to PFRS 2010*

Improvements to PFRS is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its consolidated financial position or performance.

#### *Effective in 2012*

##### *PFRS 7, Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

##### *PAS 12, Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

##### *Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate*

This Philippine Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine 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 in 2013*

#### *PFRS 9, Financial Instruments: Classification and Measurements*

PFRS 9 as issued reflects the first phase of the work on replacing PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting will be addressed. The completion of this project is expected in second quarter of 2011. The adoption of the first phase of PFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### *PFRS 10, Consolidated Financial Statements*

PFRS 10 defines the principle of control and introduces a new approach to determining which investees should be consolidated in the consolidated financial statement. It further provides a single model to be applied in the control analysis for all investees and sets out the accounting requirements for the preparation of consolidated financial statements. *PFRS 10* and *PAS 27* (as amended in 2011) together will supersede *PAS 27* (as amended in 2008) and *Standards Interpretation Committee, or SIC, 12, Consolidation – Special Purpose Entities*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013, with certain exceptions. Earlier adoption is permitted provided that *PFRS 11, Joint Arrangements*, and *PFRS 12, Disclosure of Interests in Other Entities*, are applied simultaneously and with additional disclosure of the fact.

#### *PFRS 11, Joint Arrangements*

PFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities and elimination of proportionate consolidation method. *PFRS 11* will supersede *PAS 31, Interests in Joint Ventures*, and *SIC 13, Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The standard is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10* and *PFRS 12* are applied simultaneously and with additional disclosure of the fact.

#### *PFRS 12, Disclosure of Interests in Other Entities*

*PFRS 12* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities that enables the users of the financial statements to evaluate: (a) the nature of, and risks associated with, the interests in other entities; and (b) the effects of those interests on the financial position, financial performance and cash flows. The standard also evaluate the: (i) nature and extent of significant restrictions on its ability to access or use assets and settle liabilities of the group; (ii) nature of, and changes in, the risks associated with its interests in consolidated structured entities; (iii) nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests; (iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests; (v) the consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and (vi) the consequences of losing control of a subsidiary during the reporting period.

*PFRS 12* is applied retrospectively for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10* and *PFRS 11* are applied simultaneously and with additional disclosure of the fact.

### *PFRS 13, Fair Value Measurement*

PFRS 13 sets out the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date with an emphasis that fair value is a market-based measurement, not an entity-specific measurement. *PFRS 13* explains that a fair value measurement requires an entity to determine the following: (a) the particular asset or liability being measured; (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs that a market participant would use when pricing the asset or liability. *PFRS 13* is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

### *Revised PAS 19, Employee Benefits*

The revised standard removes the deferral mechanism for pension plans and prescribes that all changes in the value of defined benefit plans will be recognized as they occur. Those movements are recorded in profit or loss and other comprehensive income as follows: (a) service cost and a net interest income or expense will be recognized in profit or loss. The net interest income or expense is the product of the net balance sheet liability or asset and the discount rate used to measure the obligation — both at the start of the year. This removes the current concept of expected return on plan assets — where income is credited with the expected long-term yield on the assets in the fund; and (b) “Remeasurements” will be recorded in other comprehensive income. These are all other movements in the balance sheet amount (essentially these are currently described as actuarial gains and losses and any effects of the restriction of a surplus to its recoverable amount). Other changes as a result of the revised standard include: (i) recognition of past service cost as expense when the plan amendments occur regardless of whether or not they are vested; and (ii) change in the basis for distinction between short-term and other long-term employee benefits to expected timing of settlement rather than employee entitlement. Changes in the carrying amount of liabilities for other long-term employment benefits will continue to be recognized in profit or loss. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognized only when the offer becomes legally binding and cannot be withdrawn. In the context of a wider restructuring, termination benefits are recognized at the same time as the other restructuring costs. These amendments are effective for annual periods beginning January 1, 2013. Earlier application is permitted.

### *Revised PAS 27, Separate Financial Statements*

The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11 and PFRS 12*. The revised standard provides the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements and requires an entity preparing separate financial statements to account for those investments at cost or in accordance with *PFRS 9*. The standard is issued concurrently with *PFRS 10* and together, the two PFRSs will supersede *PAS 27* (as amended in 2008) and *SIC 12*. Revised *PAS 27* is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that *PFRS 10, PFRS 11, PFRS 12* and *PAS 28* (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

### *Revised PAS 28, Investments in Associates and Joint Ventures*

The standard has been revised as a result of the issuance of *PFRS 10, PFRS 11 and PFRS 12*. The revised standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Equity method is defined in the revised standard as a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor’s share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the

investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee. The revised standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard supersedes *PAS 28* (as revised in 2003). Revised *PAS 28* is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted provided that *PFRS 10*, *PFRS 11*, *PFRS 12* and *PAS 27* (as amended in 2011) are applied simultaneously and with additional disclosure of the fact.

#### Amendments to *PAS 1, Presentation of Financial Statements*

The amendments improve the consistency and clarity of presentation of items of other comprehensive income. The amendments require entities to present line items of amounts of other comprehensive income in the period to be classified by nature and be grouped into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and (b) will be reclassified subsequently to profit or loss when specific conditions are met. Other comprehensive income items that can be reclassified into profit or loss include: (i) foreign exchange gains and losses arising from translations of financial statements of foreign operations; and (ii) effective portion of gains and losses on hedging instruments in a cash flow hedge. While those items that cannot be reclassified into profit or loss include: (i) changes in the revaluation surplus; (ii) actuarial gains and losses on defined benefit plans; (iii) gains and losses from investment in equity instruments measured at fair value through other comprehensive income; and (iv) for those liabilities designated at FVPL, changes in fair value attributable to changes in the liability's credit risk. These amendments are effective for annual periods beginning July 1, 2012. Earlier application is permitted.

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## 4. Significant Accounting Policies

### Revenue Recognition

The Group provides wireless services and wireline voice and data communication services. Revenue is recognized at the time of delivery of the products or services, and the collectibility is reasonably assured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

Service revenue includes the value of all telecommunications services provided, net of free usage allocations and discounts. Revenue is recognized when earned, and are net of the share of other foreign and local carriers and content providers, if any, under existing correspondence and interconnection and settlement agreements.

Revenue is stated at amounts billed or invoiced and accrued to subscribers or other carriers and content providers, taking into consideration the bill cycle cut-off (for postpaid subscribers), and charges against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax (VAT) and overseas communication tax. Inbound traffic revenue, net of discounts and outbound traffic charges, are accrued based on actual volume of traffic monitored by the Group's network and in the traffic settlement system.

### *Service revenue*

- Subscribers

Revenue principally consists of: (1) per minute airtime and toll fees for local, domestic and international long distance calls in excess of free call allocation, less bonus airtime credits, airtime on free Subscribers' Identification Module (SIM), prepaid reload discounts and interconnection fees; (2) revenue from value-added services (VAS) such as short messaging services (SMS) in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid),

multimedia messaging services (MMS), content downloading and infotext services, net of amounts settled with carriers owning the network where the outgoing voice call or SMS terminates and payout to content providers; (3) inbound revenue from other carriers which terminate their calls to the Group's network less discounts; (4) revenue from international roaming services; (5) usage of broadband and internet services in excess of fixed monthly service fees; and (6) fixed monthly service fees (for postpaid wireless subscribers) and prepaid subscription fees for discounted promotional calls and SMS.

Postpaid service arrangements include fixed monthly charges which are recognized over the subscription period on a pro-rata basis. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the billing cycles of subscribers. As a result of the billing cycle cut-off, service revenue earned but not yet billed at end of month is estimated and accrued based on actual usage less estimated consumable usage using historical ratio of consumable over billable usage.

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as unearned revenue included under "Accounts payable and accrued expenses" account in the consolidated statement of financial position. Revenue is recognized upon actual usage of the airtime value of the card, net of discounts on promotional calls and net of discounted promotional SMS usage and bonus reloads. The unused value of prepaid cards is likewise recognized as revenue upon expiration. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

- **Connecting carriers/Traffic**

Inbound revenue and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers. Inbound revenue represents settlements received for traffic originating from telecommunications providers that are sent through the Group's network, while outbound charges represent settlements to telecommunications providers for traffic originating from the Group's network and settlements to providers for contents downloaded by subscribers. Both the inbound revenue and outbound charges are accrued based on actual volume of traffic monitored by the Group from the switch.

Adjustments are made to the accrued amount for discrepancies between the traffic volume per the Group's records and per records of other carriers. The adjustments are recognized as these are determined and are mutually agreed-upon by the parties. Uncollected inbound revenue are recorded as receivables from connecting carriers under "Receivables" account in the consolidated statement of financial position, while unpaid outbound charges are recorded as payables to connecting carriers under "Accounts payable and accrued expenses" account in the consolidated statement of financial position, unless a legal right to offset exists.

*Nonservice revenue*

Proceeds from sale of handsets, laptops, phonekits, wireline telephone sets, SIM packs and other phone accessories are recognized upon delivery of the item. The related cost or net realizable value of handsets, laptops, phonekits, wireline telephone sets, SIM packs and accessories sold to customers are presented as "Cost of sales" account in the consolidated statement of comprehensive income.

*Other revenue*

Interest is recognized as it accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

### Deferred Subscriber Acquisition and Retention Costs

Subscriber acquisition costs primarily include the cost of handset and phonekit subsidies. Retention costs for existing postpaid subscribers are in the form of free handsets. Subscriber acquisition and retention costs pertaining to postpaid subscription are deferred and amortized over the base contract period, which ranges from eighteen (18) to thirty (30) months from the date in which they are incurred. Deferred subscriber acquisition and retention costs are shown under “Other noncurrent assets” account in the consolidated statement of financial position (Note 11). The related amortization of subscriber acquisition costs are charged against current operations. Retention costs for existing postpaid subscribers are in the form of free handsets.

The Group performs an overall realizability test, in order to support the deferral of the subscriber acquisition costs. An overall realizability test is done by determining the minimum contractual revenue after deduction of direct costs associated with the service contract over the base contract period. Costs are deferred and amortized, if there is a nonrefundable contract or a reliable basis for estimating net cash inflows under a revenue-producing contract which exists to provide a basis for recovery of incremental direct costs.

### Financial Instruments

#### *Date of recognition*

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value. Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The financial assets of the Group consist of financial assets at FVPL and loans and receivables. Financial assets at FVPL include derivative assets from bifurcated embedded derivatives. The loans and receivable classification includes cash and cash equivalents, trade and other receivables and refundable security deposits (Note 20).

As of September 30, 2011 and December 31, 2010, the Group had no HTM and AFS financial assets.

The financial liabilities of the Group consist of financial liabilities at FVPL and other financial liabilities. Financial liabilities at FVPL include derivative liabilities from interest rate swaps. The other financial liabilities classification include accounts payable and accrued expenses, long-term debt and bonds payable and due to related parties (Note 20).

#### *Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date 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 ask 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, option pricing models and other relevant valuation models.

#### *Day 1 difference*

Where the transaction price in a non-active market is different from the fair value on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of comprehensive income unless it qualifies for recognition as some type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference amount.

#### *Financial assets and financial liabilities at FVPL*

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded under “Market valuation losses on derivative instruments” account shown in the consolidated statement of comprehensive income.

Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other income according to the terms of the contract, or when the right of the payment has been established.

As of September 30, 2011 and December 31, 2010, the Group has derivative instruments at FVPL (Notes 19 and 20).

### Derivative Financial Instruments

Derivative instruments, including bifurcated embedded derivatives are initially recognized at fair value on the date that a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the consolidated statement of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of September 30, 2011 and December 31, 2010, the Group has outstanding interest rate swap agreement with international bank to hedge its interest rate exposure on long-term debt subject to floating interest rate (Notes 15 and 19).

### *Embedded derivatives*

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met: (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL; (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

The Group has bifurcated embedded currency forward derivatives in its purchase orders and certain network and service agreements and embedded call options in its foreign currency-denominated zero coupon convertible bonds.

The fair value changes are reported directly to the consolidated statement of comprehensive income.

### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment loss. Amortized cost is calculated by taking into account any discount or premium on the issue, and includes fees that are an integral part of the effective interest rate and transaction costs. Penalties, termination fees and surcharges on past due accounts of postpaid subscribers are recognized as revenue upon collection. The losses arising from impairment of trade and other receivables are recognized under the "Impairment losses" account in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets). Gains and losses are recognized in the consolidated statement of comprehensive income, when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's trade and other receivables (Note 7), certain refundable security deposits (Note 11) and due from related parties (Note 17).

### *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 (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Group's accounts payable and accrued expenses (Note 12), bonds payable (Note 13), long-term debt (Note 14), due to related parties (Note 17) and other obligations that meet the above definition.

### *Debt issuance costs*

Expenditures incurred in connection with the availments of long-term debt are deferred and amortized using the effective interest method over the term of the loans. The debt issuance costs are included in the measurement of "Long-term debt" account under the consolidated statement of financial position.

### *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the 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 asset and settle the liability simultaneously.

### Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

### Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or 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 (or events) 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 borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they 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 on financial assets carried at amortized cost (i.e. receivables) 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 discounted at the asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income. The asset, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor’s ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

With respect to receivables, the Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches (Note 19), with the impairment losses being determined for each risk grouping identified by the Group.

#### *Subscribers*

Full allowance for impairment losses is provided for receivables from permanently disconnected wireless and wireline subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnections generally occur within a predetermined period from statement date.

The allowance for impairment loss on subscriber accounts is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from account-level monitoring of subscriber

accounts between different age brackets, from current to one (1) day past due to one hundred twenty (120) days past due. The net flow to write-off methodology relies on the historical data of net flow tables to establish a percentage (“net flow rate”) of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result in write-off. The allowance for impairment losses is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bracket.

Regardless of the age of the account, additional impairment losses are also made for accounts specifically identified to be doubtful of collection when there is information on financial incapacity after considering the other contractual obligations between the Group and the subscriber.

Specific tests of impairment are not performed on subscriber receivables since the balances are individually insignificant.

#### *Traffic*

For traffic receivables, impairment losses are made for accounts specifically identified to be doubtful of collection regardless of the age of the account. For receivable balances that appear doubtful of collection, allowance is provided after review of the status of settlement with each carrier and roaming partner, taking into consideration normal payment cycles, recovery experience and credit history of the parties.

#### *Other receivables*

Other receivables from dealers, credit card companies and other parties are provided with allowance for impairment losses if specifically identified to be doubtful of collection, regardless of the age of the account.

### Derecognition of Financial Instruments

#### *Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of ownership and retained control of the asset; or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liability*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where 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 respective carrying amounts is recognized in the consolidated statement of

comprehensive income.

#### Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. NRV for handsets and accessories, and wireline telephone sets is the selling price in the ordinary course of business less direct costs to sell, while NRV for SIM packs, call cards, spare parts and supplies consists of the related replacement cost. Slow-moving and nonmoving items for more than one (1) year are provided with 100% provision. Cost is determined using the moving average method.

#### Value-added Input Tax and Other Current Assets

Value-added input tax classified under “Value-added Input Tax and Other Current Assets” account in the statement of financial position pertains to value-added input tax recognized on ordinary purchases of the Group. Other current assets pertain to prepayments and advance payments to various expenditures related to business activities of the Group are measured at cost. These are amortized during the period of utilization.

#### Value-added Input Tax and Other Noncurrent Assets

Value-added input tax classified under “Value-added Input Tax and Other Noncurrent Assets” account pertains to value-added input tax on importations which takes one year or more to be delivered to the Group. Other noncurrent assets pertain to deferred subscriber acquisition costs and refundable security deposits related to business activities of the Group are measured at cost. These are amortized for a period of more than one year.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and impairment losses, if any. Land is stated at cost, less any accumulated impairment losses.

The initial cost of an item of property and equipment comprises of its purchase price and any costs attributable in bringing the asset to its intended location and working condition. Cost also includes:

(a) interest and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligations (ARO) specifically for property and equipment installed/constructed on leased properties.

Subsequent costs are capitalized as part of “Property and equipment” account, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Projects under construction are transferred to the related “Property and equipment” account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for commercial service.

Prior to transfer, these facilities, when rolled out, are subjected to rigid testing for serviceability and traffic utilization, including its ability to inter-operate with other network elements. These projects are mostly turn-key and must await final acceptance and certification before they qualify as for transfers to the related Property and equipment accounts. When the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and property and equipment are ready for commercial service.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EUL) of the assets, regardless of utilization.

The EUL of property and equipment of the Group follows:

	Years
<u>Telecommunications equipment:</u>	
Tower	20
Switch	10 to 20
Outside plant facilities	10 to 20
Distribution dropwires	5
Cellular facilities and others	3 to 20
Buildings and improvements	25
Investment in cable systems	15
Vehicle and work equipment	5 to 15

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each financial year-end (Note 10).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in the consolidated statement of comprehensive income, in the year the item is derecognized.

#### Asset Retirement Obligation (ARO)

Asset retirement obligation arises when the Group is required to dismantle or remove an asset at the end of useful life and to restore the site on which it has been located. The Group recognizes the present value of these obligations and capitalizes these costs as part of the balances of the related property and equipment accounts, which are depreciated on a straight-line basis over the EUL of the related property and equipment or the contract period, whichever is shorter. Rather than allowing an entity to build up a provision for the required costs over the useful life of the facility, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires that the liability is recognized as soon as the obligation arises which will normally be at commencement of operations. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property and equipment.

The amount of ARO is accrued and such accretion is recognized as interest expense (Note 15).

#### Investment in a Joint Venture (JV)

A JV is a contractual arrangement whereby two (2) or more parties undertake an economic activity that is subject to joint control; and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Group's investment in Digitel Crossing Inc. (DCI) is accounted for under the equity method. Under the equity method, a JV, is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the JV, less any allowance for impairment losses.

The consolidated statement of comprehensive income reflects the Group's share in the results of operations of the JV.

#### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property and equipment (Note 10).

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing 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 (or cash-generating unit).

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 an indication exists, the recoverable amount is estimated. 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 that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount 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 the consolidated statement of comprehensive income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

#### Impairment of Investment in a JV

The Group's entire carrying amount of investment in a JV is tested for impairment in accordance with PAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in PAS 39 indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset that forms part of the carrying amount of the investment in a JV. Accordingly, any reversal of that impairment loss is recognised in accordance with PAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

#### Equity

##### *Paid-up Capital*

Capital stock is measured at par value for all shares issued. When the Group issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Deficit represents accumulated losses of the Group.

### *Equity Reserve*

Intercompany balances that are in the nature of equity are accounted for as equity transactions. Adjustments in the carrying value of these equity advances are recognized as Equity reserve in the consolidated statement of financial position and consolidated statement of changes in equity.

### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after 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 arrangement;
- b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.

### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

### Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. These costs are amortized using the straight-line method over the EUL of the related property and equipment. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which these are incurred.

### Income Tax

#### *Current tax*

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 amount are those that are enacted or enacted as of the reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and

carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

Deferred tax assets are not recognized, when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries and interests in joint ventures. With respect to investments in foreign subsidiaries, deferred tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

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 as of reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged to or credited against income for the year.

#### Pension Costs

Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, and the effect of any curtailment or settlement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous 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. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation as of reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The value of any asset is restricted to the sum of any cumulative unrecognized net actuarial losses and any past service cost 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. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash inflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

A portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

#### Share-Based Payment Transactions

The Parent Company has a stock option plan for the granting of nontransferable options to management and employees of the Parent Company, whereby they are granted the option to purchase a fixed number of shares of stock at a stated price during a specified period. Options will be measured at fair value at grant date (Note 18).

No options have been awarded. Once options are granted, these will be accounted for under PFRS 2, *Share-based Payment*, and the related Philippine Interpretations.

#### General, Selling and Administrative Expenses

General, selling and administrative expenses, except for rent (see accounting policy on leases), are charged against current operations as incurred.

#### Commission Expense

The Group recognizes commission expense when services are rendered by dealers and agents. The commission expense is recognized upon reaching certain level of sales of prepaid cards and subscriber acquisitions.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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 an interest expense in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

### Foreign Currency Transactions and Translation

The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso. The functional currency of DCPL, a non-Philippine subsidiary, is the US Dollar.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date and their statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of comprehensive income.

### Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) applicable to common stock [net income (loss) less dividends on preferred stock, if any] by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the parent (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

### Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's business segments consist of: (1) wireless communication services; (2) wireline voice communication services; and (3) wireline data communication services.

### Contingencies

Contingent liabilities are not recognized in the 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 disclosed when an inflow of economic benefits is probable.

### Events after the Reporting Period

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

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## 5. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires the Group to make certain estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Significant accounting judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

#### *Classification of financial instruments*

On initial recognition, the financial instrument, or its components parts, are classified as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

#### *Fair values of financial instruments*

The fair values of financial instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, fair values are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Any changes in fair values of these financial assets and liabilities would affect the consolidated statement of comprehensive income and consolidated statement of financial position (Note 20).

#### *Classification of leases*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

Also, the Group has lease agreements where it has determined that the risks and rewards related to the leased assets are retained with the lessors. Such leases are accounted for as operating leases.

*Determination of whether the Group is acting as a principal or an agent*

The Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Group has primary responsibility for providing the goods or service;
- whether the Group has inventory risk;
- whether the Group has discretion in establishing prices; and
- whether the Group bears the credit risk.

If the Group has determined that it is acting as a principal, the Group recognizes revenue on a gross basis with the amount remitted to the other party being accounted for as part of costs and expenses.

If the Group has determined that it is acting as an agent, only the net amount retained is recognized as revenue.

The Group assessed its revenue arrangements and concluded that it is acting as principal in some arrangements and as an agent in other arrangements.

Estimates

*Revenue recognition*

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of the revenue and receivables.

The Group's postpaid service arrangements include fixed monthly charges which are recognized over the subscription period on a pro-rata basis. The Group bills the postpaid subscribers throughout the month according to the bill cycles of subscribers. As a result of the billing cycle cut-off, service revenue earned but not yet billed at end of the month are estimated and accrued based on actual usage.

The Group's agreements with local and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliation before actual settlement is done, which may not be the actual volume of traffic as measured by management. Initial recognition of revenue is based on observed traffic in the network, since normal historical experience adjustments are not material to the consolidated financial statements. The differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

*Allowance for impairment losses on trade and other receivables*

The Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible trade and other receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group performs a regular review of the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Group. The Group provides full allowance on trade receivables from permanently disconnected subscribers. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for impairment losses on trade and other receivables would increase

the recorded operating expenses and decrease current assets.

#### *Obsolescence and market decline*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided 100% for nonmoving items for more than one (1) year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in adjustments for inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

#### *ARO*

The Group is legally required under various lease contracts to restore leased property to its original condition and to bear the costs of dismantling and deinstallation at the end of the contract period. These costs are accrued based on an in-house estimate which incorporates estimates on amounts of asset retirement costs, third party margins and interest rates. The Group recognizes the present value of these costs as part of the balance of the related "Property and Equipment" accounts, and depreciates such on a straight-line basis over the useful life of the related asset. The present value of dismantling costs is computed based on an average credit adjusted risk free rate of 6.2% to 10.1%. Assumptions used to compute ARO are reviewed and updated annually.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase recorded operating expenses and increase noncurrent liabilities.

#### *Estimated useful life of property and equipment*

The Group estimated the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the EUL of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment would increase recorded depreciation and amortization expense, and decrease noncurrent assets.

#### *Impairment of nonfinancial assets*

The Group assesses the impairment of assets (property and equipment, investments in a joint venture) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length

transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the net selling price.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

#### *Pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

#### *Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse affect on the Group's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

#### *Deferred tax assets*

The Group reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income 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 income to allow all or part of its deferred tax assets to be utilized.

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## 6. Cash and Cash Equivalents

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Cash on hand and in banks	<b>₱ 294,398</b>	₱452,191
Cash equivalents	<b>997,310</b>	655,040
	<b>₱ 1,291,708</b>	₱1,107,231

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents, which represent money market placements are made for varying periods depending on the immediate cash requirements of the Group, and earn an average interest of 3.1% and 2.2% in 2011 and 2010, respectively.

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## 7. Receivables

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Trade receivables:		
Subscribers	<b>₱2,441,477</b>	₱2,929,217
Connecting carriers	<b>573,607</b>	452,438
Agents and others	<b>206,206</b>	183,912
Other receivables	<b>248,662</b>	176,504
	<b>3,469,952</b>	3,742,071
Less allowance for impairment loss:		
Trade receivables:		
Subscribers	<b>865,784</b>	1,595,104
Connecting carriers	<b>61,392</b>	60,061
Other receivables	<b>23,200</b>	14,982
	<b>950,376</b>	1,670,147
	<b>₱2,519,576</b>	₱2,071,924

Receivables are noninterest bearing and are generally collectible in the short term. Receivables from connecting carriers are presented net of payables to the same connecting carriers based on 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 asset and settle the liability simultaneously.

“Agents and others” receivable account consists mainly of receivables from credit card companies, dealers and distributors which have collection arrangements with the Group.

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## 8. Inventories

This account consists of:

	<b>September 30</b>	December 31
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Audited)
	(In Thousand Pesos)	
At NRV:		
Handsets, phone kits and accessories	<b>₱206,060</b>	₱136,873
Spare parts and supplies	<b>72,696</b>	133,103
	<b>278,756</b>	269,976
At cost:		
SIM cards and call cards	<b>144,819</b>	41,366
	<b>₱423,575</b>	₱311,342

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## 9. Value-added Input Tax and Other Current Assets

This account consists of prepayments for:

	<b>September 30</b>	December 31
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Audited)
	(In Thousand Pesos)	
Value-added input tax	<b>₱1,407,639</b>	₱2,068,500
Prepaid taxes	<b>359,927</b>	188,366
Prepaid rent	<b>45,775</b>	158,113
Subscribers' installation cost	<b>29,879</b>	14,725
Insurance	<b>24,278</b>	8,826
Office supplies	<b>4,817</b>	16,701
Others	<b>19,126</b>	26,387
	<b>₱1,891,441</b>	₱2,481,618

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Value-added input tax is an indirect tax on the goods and services which the Group uses in its operations. The Group recovers its input tax by setting it against the output tax as of the reporting date. Management believes that the amount is fully realizable in the future.

The prepaid taxes account consists of prepayments for Spectrum User's fee (SUF), radio station licenses and National Telecommunications Commission (NTC) supervision regulation fees.

The prepaid rent account represents two (2) to three (3) months of advance rental that can be applied against future billings (Note 21). Prepaid rent also includes day 1 difference between the present value of the refundable security deposit and the undiscounted amount.

## 10. Property and Equipment

Movements in the Group's Property and Equipment account as at September 30, 2011 (Unaudited) and December 31, 2010 (Audited) are as follows:

<u>2011</u>	Tele-communications Equipment	Land	Buildings and Improvements	Investment in Cable Systems	Vehicle and Work Equipment	Projects Under Construction	Total
<b>Cost</b>	(In Thousand Pesos)						
Balance, January 1, 2011	<b>₱76,661,978</b>	<b>₱475,998</b>	<b>₱4,043,211</b>	<b>₱790,728</b>	<b>₱6,891,480</b>	<b>₱30,695,237</b>	<b>₱119,558,632</b>
Additions	348,242	-	50,495	-	255,302	3,302,967	3,957,006
Others	1,290,571				(2,920)	(1,506,816)	(219,165)
Balance, September 30, 2011	<b>78,300,791</b>	<b>475,998</b>	<b>4,093,706</b>	<b>790,728</b>	<b>7,143,862</b>	<b>32,491,388</b>	<b>123,296,473</b>
<b>Accumulated Depreciation and Amortization</b>							
Balance, January 1, 2011	30,886,918	-	1,908,143	238,199	5,198,461	-	38,231,721
Depreciation and amortization	3,281,953		153,461	32,199	457,383		3,924,996
Others	(311,606)		-		(2,923)	8,059	(306,470)
Balance, September 30, 2011	<b>33,857,265</b>	<b>-</b>	<b>2,061,604</b>	<b>270,398</b>	<b>5,652,921</b>	<b>8,059</b>	<b>41,850,247</b>
<b>Net Book Value</b>	<b>₱44,443,526</b>	<b>₱475,998</b>	<b>₱2,032,102</b>	<b>₱520,330</b>	<b>₱1,490,941</b>	<b>₱32,483,329</b>	<b>₱81,446,226</b>
<u>2010</u>	Tele-communications Equipment	Land	Buildings and Improvements	Investment in Cable Systems	Vehicle and Work Equipment	Projects Under Construction	Total
<b>Cost</b>	(In Thousand Pesos)						
Balance, January 1, 2010	₱49,897,066	₱475,998	₱3,872,617	₱758,847	₱6,215,672	₱45,607,451	₱106,827,651
Additions	211,653	-	110,862	-	240,463	12,168,003	12,730,981
Transfers	26,553,259	-	59,732	31,881	435,345	(27,080,217)	-
Balance, December 31, 2010	76,661,978	475,998	4,043,211	790,728	6,891,480	30,695,237	119,558,632
<b>Accumulated Depreciation and Amortization</b>							
Balance, January 1, 2010	27,382,973	-	1,702,219	192,699	4,564,635	-	33,842,526
Depreciation and amortization	3,486,685	-	205,924	45,500	633,826	-	4,371,935
Others	17,260	-	-	-	-	-	17,260
Balance, December 31, 2010	30,886,918	-	1,908,143	238,199	5,198,461	-	38,231,721
<b>Net Book Value</b>	<b>₱45,775,060</b>	<b>₱475,998</b>	<b>₱2,135,068</b>	<b>₱552,529</b>	<b>₱1,693,019</b>	<b>₱30,695,237</b>	<b>₱81,326,911</b>

### Borrowing Costs

The Group uses its borrowed funds to finance the acquisition, construction and installation of property and equipment items. Borrowing costs attributed to these are capitalized and included in the cost of property and equipment.

### Investment in Cable Systems

Investment in cable systems represents the Group's indefeasible rights of use (IRU) of circuits in certain cable systems.

### Collaterals

The Group has no property and equipment which were used as collaterals for loans as of September 30, 2011 and December 31, 2010.

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## 11. Value-added Input Tax and Other Noncurrent Assets

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Deferred subscriber acquisition and retention costs – net	<b>₱1,632,202</b>	₱1,454,926
Value-added input tax	<b>1,284,222</b>	1,089,236
Refundable security deposits	<b>282,273</b>	273,500
Others	<b>53,116</b>	108,251
	<b>₱3,251,813</b>	₱2,925,913

### Deferred Subscriber Acquisition and Retention Costs- net

Changes in deferred subscriber acquisition and retention costs follow:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Balance at beginning of period	<b>₱1,454,926</b>	₱1,510,121
Deferral of subscriber acquisition and retention costs during the period	<b>1,352,243</b>	1,451,181
Amortization	<b>(1,174,967)</b>	(1,506,376)
Balance at end of period	<b>₱1,632,202</b>	₱1,454,926

### Refundable Security Deposits

Security deposits relate to the Group's leased buildings, cell site lots and commercial spaces. These will be collected in full or offset against rent payable at the end of the lease terms subject to adjustments by the lessor to cover damages incurred on the properties.

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## 12. Accounts Payable and Accrued Expenses

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Accrued expenses	<b>₱ 4,149,797</b>	₱4,345,278
Trade payables	<b>2,981,967</b>	2,844,413
Unearned revenue	<b>586,276</b>	689,440
Payables to connecting carriers	<b>122,733</b>	171,529
Due to affiliates	<b>37,131</b>	365,893
Others	<b>796,946</b>	730,766
	<b>₱8,674,850</b>	₱9,147,319

### Accrued Expenses

The Group's Accrued Expenses account consists of accruals for:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Project costs	<b>₱ 869,773</b>	₱ 816,977
Advertising	<b>865,663</b>	1,101,327
Repairs and maintenance	<b>578,657</b>	800,505
Rent	<b>219,281</b>	317,797
Utilities	<b>209,825</b>	233,567
Interest and other financing charges	<b>85,180</b>	195,468
Others	<b>1,321,418</b>	879,637
	<b>₱4,149,797</b>	₱4,345,278

### Trade Payables

Trade payables and accrued expenses are normally settled within one (1) year.

### Unearned Revenue

Unearned revenue represents the unused unexpired airtime value of prepaid card and over-the-air reload services sold.

### Payables to Connecting Carriers

Payables to connecting carriers represent interconnection fees due to other carriers for the charges on voice and data transmissions which enable the Group's subscribers to reach subscribers of other networks.

Payables to connecting carriers are presented net of receivables from the same carrier based on 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 asset and settle the liability simultaneously.

### Others

Others account includes deferred VAT credits and taxes and licenses.

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## 13. Bonds Payable

This account consists of:

	September 30, 2011		December 31, 2010	
	Principal amount	Peso equivalent	Principal amount	Peso equivalent
Parent Company Zero Coupon Convertible Bonds (DIGITEL Bonds)	US\$27,033	₱1,181,874	US\$25,761	₱1,129,385
DCPL Zero Coupon Convertible Bonds (DCPL Bonds) (Note 16)	416,281	18,199,811	382,513	16,769,355
	<b>US\$443,314</b>	<b>₱19,381,685</b>	US\$408,274	₱17,898,740

The exchange rates used to restate the US Dollar-denominated bonds payable were P43.72 to US\$1.00 and P43.84 to US\$1.00 as of September 30, 2011 and December 31, 2010, respectively.

### DIGITEL Bonds

On December 8, 2003, the Parent Company issued Digital Bonds Due 2013 with face value of US\$31.1 million and issue price of US\$10.0 million. As of September 30, 2011 and December 31, 2010, the outstanding balance of the Digital Bonds amounted to P1,181.9 million (US\$27.0 million) and P1,129.4 million (US\$25.8 million), respectively.

The Digital Bonds bear a yield-to-maturity of 12%. The Digital Bonds are redeemable at the option of the Parent Company, in whole or in part, at the end of each year starting one (1) year after the issue date and every year thereafter.

Alternately, the bondholders will have the right to convert the Digital Bonds into common shares of the Parent Company at redemption date. The number of conversion shares to be received by the bondholders upon exercise of the conversion right is equivalent to the total redemption value which the bondholders would have received if the Digital Bonds were redeemed multiplied by the Philippine Peso-US Dollar exchange rate for the relevant date divided by the P1 par value. Unless previously converted, purchased and cancelled or redeemed, the DIGITEL Bonds shall be converted into the common shares of the Parent Company at the end of the tenth year after the issue date.

JGSHI subscribed and paid a total of US\$9,996,392 for the bonds (“JGSHI-subscribed Bonds”). On January 3, 2006, the Parent Company entered into a Memorandum of Agreement (MOA) with JGSHI to amend the conversion options of JGSHI-subscribed Bonds. On the said MOA, the conversion rights provided for in the terms and conditions of the Bonds as contained in the Application to Purchase and in the Prospectus, JGSHI agreed that any conversion of its JGSHI-subscribed Bonds into Parent Company shares shall be subject to the consent of the Parent Company.

The Digital Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Parent Company and shall at all times rank *pari passu* and without preference among themselves and at least equally with all other present and future unsubordinated, unsecured obligations of the Parent Company, except as may be preferred by virtue of mandatory provision of law.

The bondholders have the option, through a resolution approved by 75% of the bondholders based on the face value of the Digitel Bonds then outstanding, to require a lien on unencumbered assets of the Parent Company not subject to a dispute, valued at approximately US\$200.0 million, subject to the limitations, conditions and restrictions of a Mortgage Trust Indenture (MTI). The MTI will be administered by a Security Trustee appointed in accordance with the MTI.

Proceeds from the sale of the Digitel Bonds were used to partially fund the purchase of equipment for GSM Project Phases 1 and 2 valued at approximately US\$200.0 million with completion of approximately 681 cellular sites covering key urban cities nationwide pursuant to a PA issued by the NTC.

The convertible bonds are redeemable or exchangeable at the option of the holders at par value of ₱1 per share. Based on the redemption value as at September 30, 2011, the bonds are convertible into 1,061,330, 217 common shares.

#### DCPL Bonds

In November 2004, DCPL issued DCPL Bonds due 2014 with face value of US\$590.1 million and issue price of US\$190.0 million. JG Summit Philippines, Ltd., a related party, fully subscribed to the DCPL Bonds. As of September 30, 2011 and December 31, 2010, the outstanding balance of the DCPL Bonds amounted to ₱18,199.8 million (US\$416.3 million) and ₱16,769.4 million (US\$382.5 million), respectively.

The DCPL Bonds bear a yield-to-maturity of 12%. The DCPL Bonds are exchangeable into shares of the Parent Company, and are redeemable at the option of DCPL, in whole or in part, starting one (1) year after the issue date and every year thereafter. Alternately, the bondholder will have the right to convert the DCPL Bonds into common shares of the Parent Company at redemption date. The number of conversion shares to be received by the bondholders upon exercise of the conversion right is equivalent to the total redemption value which the bondholders would have received if the DCPL Bonds were redeemed multiplied by the Philippine Peso-US Dollar exchange rate for the relevant date divided by the ₱1 par value.

In order to exercise the conversion or exchange, the holder must submit to DCPL, with a copy to the Parent Company, a duly completed and executed Exchange Notice. DCPL and the Parent Company shall respectively transmit in writing to the subscriber/holder their consent or objection, within three (3) days from their respective receipt of the Exchange Notice.

The DCPL Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of DCPL and shall at all times rank *pari passu* and without preference among themselves.

The bondholder has the option to require a lien on certain assets of the Parent Company in which case, the Parent Company and bondholder shall, within a reasonable time, execute an MTI.

The convertible bonds are redeemable or exchangeable at the option of the holders at par value of ₱1 per share. Based on the redemption value as at September 30, 2011, the bonds are convertible into 18,199,810,894 common shares.

With the acquisition of Digitel by PLDT, the rights, title and interest of JGSHI to the bonds have been transferred to PLDT as the new parent company (see Note 16).

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#### 14. Long-term Debt

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Loans from foreign banks	<b>₱ 17,218,136</b>	₱15,261,865
Loans from domestic banks	<b>2,645,197</b>	-
	<b>₱ 19,863,333</b>	₱15,261,865
Less current portion	<b>2,948,613</b>	3,004,206
	<b>₱ 16,914,720</b>	₱12,257,659

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#### 15. Other Noncurrent Liabilities

This account consists of:

	<b>September 30 2011 (Unaudited)</b>	December 31 2010 (Audited)
	(In Thousand Pesos)	
Accrued project costs	<b>₱5,071,565</b>	₱9,868,728
ARO	<b>557,711</b>	501,988
Derivative liability (Note 19)	<b>269,420</b>	249,301
Pension liabilities	<b>56,754</b>	182,269
Due to affiliates	<b>148,967</b>	131,660
	<b>₱6,104,417</b>	₱10,933,946

##### Accrued Project Costs

Accrued project costs represent costs of unbilled materials, equipment and labor which are already eligible for capitalization as of September 30, 2011 and December 31, 2010. Determination of costs to be capitalized is based on the contract price multiplied by the percentage of shipped materials and/or delivered services.

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#### 16. Equity

As of September 30, 2011 and December 31, 2010, the details of the Parent Company's common stock follow:

Authorized shares	9,000,000,000
Par value per share	₱1.00
Issued shares (Note 23)	6,356,976,300

### PLDT's Acquisition of Digital Telecommunications Phils., Inc., or Digitel

On March 29, 2011, the Board Directors of JGSHI and PLDT, approved the acquisition by PLDT of JGSHI's and certain other seller-parties' ownership interest in Digitel, comprising of: (i) 3.28 billion common shares representing approximately 51.55% of the issued common stock of Digitel; (ii) zero-coupon convertible bonds issued by Digitel and its subsidiary to JGSHI and its subsidiary, which are convertible into approximately 18.6 billion common shares of Digitel assuming a conversion date of June 30, 2011 and an exchange rate of Php43.405 per U.S. dollar; and (iii) intercompany advances made by JGSHI to Digitel in the total principal amount plus accrued interest of Php34.1 billion as at December 31, 2010 (the "Assets").

PLDT agreed to pay JGSHI and certain other seller-parties Php69.2 billion, which will be settled by the issuance of one new PLDT common share for every Php2,500 (equivalent to 27.68 million new PLDT common shares) consideration payable for the Assets.

The acquisition was completed on October 26, 2011 following the issuance by the SEC on July 29, 2011 of the confirmations of the valuation of the Assets and that the issuance of the PLDT common shares to JGSHI and the other seller-parties is exempt from the registration requirement of the SRC, by the NTC on October 26, 2011 of the approval of the sale or transfer of JGSHI and the other seller-parties' Digitel shares representing more than 40% of Digitel's issued and outstanding common stock, and by the PSE on October 26, 2011 of the approval of the block sale of the Digitel shares.

Under the Securities Regulation Code, or SRC, PLDT is required to conduct a tender offer for all the remaining Digitel shares, approximately 48.45% of the issued common stock of Digitel, held by the remaining non-controlling shareholders of Digitel upon completion of the acquisition of 51.55% interest. Under the tender offer, PLDT will offer to purchase the remaining Digitel shares at the price of Php1.6033 per Digitel share, which will be paid in the form of either PLDT shares issued at Php2,500 per share or cash, at the option of Digitel shareholders. The tender offer price will be equivalent to the fully diluted price per share of Digitel, assuming full conversion of the convertible bonds. Should all remaining shareholders of Digitel accept the tender offer by PLDT, PLDT will issue a total of 29.65 million new PLDT common shares for the acquisition of the Assets and for the remaining Digitel shares held by the other shareholders of Digitel.

Digitel and DMPI have outstanding long-term debts that are guaranteed by JGSHI. The loans and guarantees contain representations and covenants applicable only to JGSHI including that on the ownership of JGSHI in Digitel. Digitel and DMPI have provided the necessary notices and obtained the required consents of the lenders and export credit agencies both for the transfer of ownership of Digitel and the replacement of JGSHI by PLDT as guarantor under these loans. The amendments to the covenants and the PLDT guarantee will take effect upon completion of the acquisition.

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

### Dividends

The Group historically has not paid cash dividends on the shares. Any payment of cash dividends on the shares in the future will depend upon the Group's earnings, cash flow, financial condition, capital investment requirements and other factors.

### Equity Reserve

In November 2004, DCPL (issuer) issued bond (i.e. DCPL Bonds) to JG Summit Philippines, Ltd. (bondholder and a wholly owned subsidiary of JGSHI, the Group's ultimate Parent Company) due 2014 with face value of US\$590.1 million and issue price of US\$190.0 million. The proceeds of the bonds were used for the Company's expansion projects. The issuance of the DCPL Bonds was approved by Parent Company's shareholders in its special stockholders' meeting held on May 28, 2001. The subscription of DCPL Bonds was approved by the Ultimate Parent Company's shareholders in its meeting held on July 22, 2004. This transactions being among entities under common control has been agreed by the Ultimate Parent Company, DCPL and JGSPL as an equity transaction.

As discussed in Note 13, the DCPL bonds are convertible to common shares based on the redemption values as determined on specified dates. In anticipation of the plan or intent to convert or redeem the bonds in 2011, the issuer and bondholder agreed to bring the bond carrying value to its redemption value as at December 31, 2010. The adjustment amounting ₱1,831.2 million is shown as Equity reserve in the statement of financial position and statement of changes in equity.

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## **17. Related Party Transactions**

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Related party transactions are made under the normal course of business. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities (referred herein as affiliates). Affiliates are entities that are owned and controlled by JGSHI and neither a subsidiary or associate of the Group. These affiliates are effectively sister companies of the Group by virtue of ownership of JGSHI.

Outstanding payable to JGSHI and a subsidiary of JGSHI aggregated to ₱34,118.5 million as of September 30, 2011 and December 31, 2010.

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## **18. Employee Benefits**

### Employee Stock Option (ESOP)

The Parent Company's BOD and stockholders approved on August 10, 1994 and November 7, 1994, respectively, an ESOP which provides opportunity for all directors, officers and managers of the Parent Company to purchase an ownership interest in the Parent Company's common stock.

The ESOP covers the offering of 320.0 million shares out of the authorized but unissued shares, including issued shares reacquired by the Parent Company, to all eligible participants of the ESOP at an exercise price of ₱1.50 per share. Under the ESOP guidelines, eligible participants will be allocated an aggregate amount of shares determined in accordance with their rank, seniority and performance. The option to purchase shares under the ESOP may be exercised after completion of at least five (5) years of continuous service to the Parent Company by paying the full amount in cash.

No options have been awarded. Once options are granted, these will be accounted for under PFRS 2 and the related Philippine Interpretations on share based payments. On December 10, 2010, the ESOP was terminated.

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## 19. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, refundable security deposits, zero-coupon bonds payable, and interest-bearing loans and borrowings. The main purpose of these financial instruments is to finance the Group's operations and capital expenditures. The Group has various other financial assets and financial liabilities, such as trade and other receivables and trade payables which arise directly from its operations, and due to related parties.

The Group has no independent risk management system. The BOD of the Group and the ultimate parent review and approve policies for managing each of these risks and they are summarized below, together with the related risk management structure.

There were no changes in the risk management objectives and policies of the Group as of September 30, 2011.

### Risk Management Structure

The Group has its own BOD which is ultimately responsible for oversight of the risk management process, which involves identifying, measuring, analyzing, monitoring and controlling risks. The following board-level independent committees with explicit authority and responsibility for managing and monitoring risks were created.

#### 1. Audit Committee (AC)

The AC shall assist the Group's BOD in its fiduciary responsibility for the overall effectiveness of risk management systems, and both the internal and external audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards, and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal and external auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal and external auditors; and

- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

## 2. Enterprise Risk Management Group (ERMG)

To systematize the risk management within the Group and the other business units, the ERMG was created by the Ultimate Parent's BOD to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

- a. recommending of risk policies, strategies, principles, framework and limits;
- b. managing fundamental risk issues and monitoring of relevant risk decisions;
- c. providing support to management in implementing the risk policies and strategies; and
- d. developing a risk awareness program.

### *Corporate governance*

Compliance with the principles of good corporate governance is also one of the objectives of the Ultimate Parent's BOD. To assist the Group and the other business units in achieving this purpose, the Ultimate Parent's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance with the provisions and requirements of the Corporate Governance Manual and other requirements on good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties on such infringements for further review and approval of the Ultimate Parent's BOD, among others.

The risk management framework encompasses environmental scanning, identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Support groups have likewise been created to explicitly manage on a day-to-day basis specific types of risks like trade receivables, supplier management, etc.

### *Enterprise-wide Risk Management Group (EWRMG)*

On the business unit level, the Group created the EWRMG. The EWRMG consists mainly of the following divisions:

1. Activation and Credit Management Division, which is responsible for the evaluation, approval and account management of postpaid lines.
2. Revenue and Risk Management Division, which is responsible for the prevention and detection of revenue fraud and leakages.
3. Inter-carrier Settlement Division, which is responsible for the management of inter-network providers' accounts.

### Risk Management Policies

The main risks arising from the use of financial instruments are market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's policies for managing the aforementioned risks are summarized below.

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The Group does not have any foreign currency hedging arrangements.

The Group does not expect the impact of the volatility on other currencies to be material. There is no other impact on the Group's equity, other than those already affecting the profit and loss.

*Interest rate risk*

Interest rate risk is the risk that the value (price) or future cash flows (cash flow interest rate risk) of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to cash flow interest rate risk relates primarily to its long-term debt, while its exposure to price interest rate risk relates to fair value changes in its interest rate swap. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

*Cash flow interest rate risk*

The Group's long-term debt that is subject to interest rate risk is solely denominated in US dollar.

Reasonable possible changes in Interest rate	Change in Income before income tax
1.5%	(In Thousand Pesos) ₱ (299,571)
(1.5%)	299,571

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group trades only with recognized, creditworthy third parties. It is the Group's 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 ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables, due from related parties, refundable security deposits and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

a. Credit risk exposure

	<b>September 30 2011 (Unaudited)</b>
	(In Thousand Pesos)
Cash and cash equivalents (excluding cash on hand amounting P42.4 million)	<b>₱1,249,306</b>
Receivables – net:	
Trade:	
Subscribers	<b>1,575,693</b>
Connecting carriers	<b>512,215</b>
Agents and others	<b>206,206</b>
Others	<b>225,462</b>
Refundable security deposits	<b>282,273</b>
Derivative assets	<b>451,355</b>
	<b>₱4,502,510</b>

b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.

The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risk, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures as of September 30, 2011, before taking into account any collateral held or other credit enhancements, is categorized by geographical location as follows:

	Philippines	Asia (Excluding Philippines)	United States and Other Territories	Europe	Total
(In Thousands Pesos)					
Cash and cash equivalents	P 1,235,638	P -	P 13,019	P 649	P 1,249,306
Receivables - net					
Trade:					
Subscribers	1,575,693	-	-	-	1,575,693
Connecting Carriers	148,582	143,369	192,849	27,415	512,215
Agents and Others	206,206	-	-	-	206,206
Others	225,462	-	-	-	225,462
Refundable security deposits (included under Other Noncurrent Assets account in the interim consolidated statement of financial position)	282,273	-	-	-	282,273
Derivative assets	384,129	67,226	-	-	451,355
	<b>P 4,057,983</b>	<b>P 210,595</b>	<b>P 205,868</b>	<b>P 28,064</b>	<b>P 4,502,510</b>

ii. The table below shows the industry sector analysis of the Group's financial assets as of September 30, 2011, before taking into account any collateral held or other credit enhancements.

	Wholesale and Retail	Manufacturing	Transport, Storage and Communications	Real Estate, Renting and Business Activities	Electricity, Gas and Water	Hotel and Restaurants	Public Administration and Defense	Private Households	Financial Intermediaries	Others*	Total	
(In Thousand Pesos)												
Cash and cash equivalents (excluding cash on hand amounting P42.4 million)	P	P	P	P	P	P	P	P	P	1,249,306	P	1,249,306
Receivables - net												
Trade:												
Subscribers	354,100	158,487	136,932	158,593	15,592	14,503	17,197	105,302	26,487	588,500		1,575,693
Connecting Carriers	-	-	512,215	-	-	-	-	-	-	-		512,215
Agents and Others	100,876	1,864	9,347	-	9	-	8,889	-	1,479	83,742		206,206
Others	2,895	-	2,606	2,971	-	-	-	-	-	216,990		225,462
Refundable deposits (included under "Value-added input tax and other noncurrent assets" account in the interim consolidated statement of financial position)	-	-	-	282,273	-	-	-	-	-	-		282,273
Derivative assets	451,355	-	-	-	-	-	-	-	-	-		451,355
	<b>P 909,226</b>	<b>P 160,351</b>	<b>P 661,100</b>	<b>P 443,837</b>	<b>P 15,601</b>	<b>P 14,503</b>	<b>P 26,086</b>	<b>P 105,302</b>	<b>P 1,277,272</b>	<b>P 889,232</b>		<b>P 4,502,510</b>

\*Others include the following sectors – Other community, social and personal services, education, mining and quarrying, health and social work.

c. Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets as of September 30, 2011.

	Neither Past Due Nor Specifically Impaired				Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Sub-standard Grade			
	(In Thousand Pesos)					
Cash and cash equivalents	P 1,291,708	P -	P -	P -	P -	P 1,291,708
Receivables						
Trade:						
Subscribers	533,730	247,828	157,802		1,502,117	2,441,477
Connecting Carriers	339,957	-	-		233,650	573,607
Agents and Others	23,474	7,792	5,476		169,464	206,206
Others	2,861	949	667		244,185	248,662
Refundable security deposits (included under "Value-added input tax and other noncurrent assets" account in the interim consolidated financial position)	282,273					282,273
Derivative assets	451,355					451,355
	<b>P 2,925,358</b>	<b>P 256,569</b>	<b>P 163,945</b>	<b>P</b>	<b>2,149,416</b>	<b>P 5,495,288</b>

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability.

High grade receivables from subscribers, agents and others are accounts considered to be high value and have consistently exhibited good paying habits. Standard grade receivables from subscribers, agents and others are active accounts with propensity of deteriorating to mid-range age buckets. These accounts do not flow through to permanent disconnection status as they generally respond to credit actions and update their payments accordingly. Substandard grade receivables from subscribers, agents and others are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

Receivables from connecting carriers which are neither past due nor impaired are considered to be high quality given the reciprocal nature of the Group's interconnection and roaming partner agreements with the carriers and the Group's historical collection experience.

The table shows the analysis of age of receivables as of September 30, 2011.

	Total	Neither Past Due Nor Impaired	Past Due but Not Impaired			Past Due and Impaired
			< 30 days	30 - 60 days	60 - 90 days	
(In Thousand Pesos)						
Trade:						
Subscribers	P 2,441,477	P 939,361	P 305,560	P 73,936	P 256,835	P 865,785
Connecting Carriers	573,607	211,609	63,945	45,281	191,380	61,392
Agents and Others	206,206	36,740	9,486	25,596	134,384	-
Others	248,662	4,477	33,407	6,570	181,008	23,200
	<b>P 3,469,952</b>	<b>P 1,192,187</b>	<b>P 412,398</b>	<b>P 151,383</b>	<b>P 763,607</b>	<b>P 950,377</b>

a. Impairment assessment

The Group recognizes impairment losses based on the results of the specific/individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold. These and the other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment include: (1) specific/individual assessment; and (2) collective assessment.

Under specific/individual assessment, the Group assesses each individually significant credit exposure for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment. Among the items and factors considered by the Group when assessing and measuring specific impairment allowances are: (a) the timing of the expected cash flows; (b) the projected receipts or expected cash flows; (c) the going concern of the counterparty's business; (d) the ability of the counterparty to repay its obligations during financial crises; (e) the availability of other sources of financial support; and (f) the existing realizable value of collateral. The impairment allowances, if any, are evaluated as the need arises, in view of favorable or unfavorable developments.

With regard to the collective assessment of impairment, allowances are assessed collectively for losses on receivables that are not individually significant and for individually significant receivables when there is no apparent evidence or not yet objective of individual impairment. A particular portfolio is reviewed on a periodic basis in order to determine its corresponding appropriate allowances. The collective assessment evaluates and estimates the impairment of the portfolio in its entirety even though there is no objective evidence of impairment on an individual assessment. Impairment losses are estimated by taking into consideration the following deterministic information: (a) historical losses/write offs; (b) losses which are likely to occur but has not yet occurred; and (c) the expected receipts and recoveries once impaired.

Specific policies regarding the Group's impairment assessment on receivables from subscribers and connecting carriers/traffic follow:

i. Subscribers

Full allowance is provided for trade receivables from permanently disconnected wireless and wireline subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnections generally occur within a predetermined period from statement date.

The allowance for impairment loss is determined based on the results of the net flow to write off methodology. Net flow tables are derived from account-level monitoring of subscriber accounts between different age brackets, from current to one (1) day past due to one hundred twenty (120) days past due. The net flow to write off methodology relies on the historical data of net flow tables to establish a percentage (net flow rate) of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result in write off. The allowance for impairment loss is then computed based on the outstanding balances of the receivables as of balance sheet date and the net flow rates determined for the current and each delinquency bracket.

For active residential and business wireline voice subscribers, full allowance is generally provided for outstanding receivables that are past due by ninety (90) and one hundred twenty (120) days, respectively. Full allowance is likewise provided for receivables from wireline data corporate accounts that are past due by one hundred twenty (120) days.

Specific tests of impairment are not performed on subscriber receivables, since the balances are individually insignificant.

ii. Connecting carriers/traffic

Provisions for impairment loss are made for accounts specifically identified to be doubtful of collection, regardless of the age of the account. Full allowance is generally provided after review of the status of settlement with the carriers for net receivables not settled within industry observed settlement periods.

iii. Other receivables

Other receivables from dealers and credit card companies are provided with allowance for impairment loss if specifically identified to be doubtful of collection, regardless of the age of the account.

Specific tests of impairment are performed on the Group's other financial assets such as cash and cash equivalents, amounts due from related parties and refundable security deposits.

*Liquidity risk*

The major liquidity risk confronting the Group is the daily calls on its available cash resources in respect of obligations arising from trade payables and long-term debts.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance

capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues (i.e. bond offerings) both onshore and offshore.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities as of September 30, 2011, based on undiscounted contractual payments.

	On Demand	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Cash and cash equivalents	P 1,291,708	P -	P -	P -	P -	P 1,291,708
Receivables	1,914,178	1,555,774	-	-	-	3,469,952
Financial Assets	P 3,205,886	P 1,555,774	P -	P -	P -	P 4,761,660
Bonds payable	P -	P -	P -	P 27,159,345	P -	P 27,159,345
Long-term debt (including current portion)	-	939,829	2,439,834	15,221,538	3,095,324	21,696,525
Due to related parties	-	-	-	34,118,544	-	34,118,544
Accounts payable and accrued expenses	457,481	3,502,042	1,991,249	562,056	-	6,512,828
Financial Liabilities	P 457,481	P 4,441,871	P 4,431,083	P 77,061,483	P 3,095,324	P 89,487,242

### Derivative Financial Instruments

The Group's derivatives include currency derivatives embedded in nonfinancial contracts (consisting mainly of foreign currency denominated purchase orders with various expected delivery dates) and optionalities embedded in its foreign currency denominated zero coupon convertible bonds. These derivatives are accounted for at FVPL.

#### *Embedded currency forwards*

The Group has derivatives embedded in some of its contracts. Such derivatives pertain to embedded currency forwards noted in purchase, sales and service contracts, denominated in a currency which is not the functional currency of substantial party to the contract or routine currency of the transaction for the contracts. The nonfinancial contracts consist mainly of foreign currency denominated purchase orders with various expected delivery dates ranging from twelve (12) to forty (40) months.

#### *Embedded call options*

As of December 31, 2005, the Parent Company's zero coupon convertible bonds contain conversion options which entitle the holders to exchange the bonds into shares of the Parent Company.

As of December 31, 2005, the outstanding notional amounts of the conversion option embedded in the Parent Company's foreign currency denominated zero coupon convertible bonds amounted to 639.7 million shares. The fair valuation of these options resulted in the recognition of a derivative liability of P15.8 million as of December 31, 2005.

JGSHI subscribed and paid a total of \$9,996,392 for the bonds (“JGSHI-subscribed Bonds”). On January 3, 2006, the Parent Company entered into a Memorandum of Agreement (MOA) with JGSHI to amend the conversion options of JGSHI-subscribed Bonds. On the said MOA, the conversion rights provided for in the terms and conditions of the Bonds as contained in the Application to Purchase and in the Prospectus,

JGSHI agreed that any conversion of its JGSHI-subscribed Bonds into Parent Company shares shall be subject to the consent of the Parent Company.

The Parent Company may redeem the bonds at specified prices on various redemption dates up to December 2013 (Note 13).

#### *Interest rate swap*

On October 6, 2008, the Group entered in an interest rate swap agreement with a bank, with a total notional amount of US\$54.1 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of eight (8) years and interest exchange is every 29th day of March and 28th day of September.

In 2010, the Group entered in an interest rate swap agreement with a bank, with a total notional amount of US\$46.5 million to hedge its interest rate exposures on the long-term USD floating rate liability. The interest rate swap has a term of eight (8) years and interest exchange is every 28th day of June and 29th day of December.

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## 20. Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which is practicable to estimate such value:

#### *Cash and cash equivalents, receivables, and accounts payable and accrued expenses*

The fair values of cash and cash equivalents, trade receivables, other receivables, certain receivable and payable to affiliated companies, and accounts payable and accrued expenses are approximately equal to their carrying amounts due to the short-term nature of the transaction.

#### *Refundable security deposits (included under “Other Noncurrent Assets” account in the consolidated statements of financial position)*

The fair value of noninterest-bearing refundable deposits is determined as the present value of estimated future cash flows using prevailing market rates.

#### *Long-term debt*

The fair value of floating rate loan is determined by discounting the future cash flows (interests and principal) using prevailing market rates. The frequency of repricing per year affects the fair value. In general, a loan that is repriced every three (3) months will have a carrying value closer to the fair value than a six (6)-month repriceable loan with similar maturity and interest basis.

#### *Bonds payable*

The fair values of the zero coupon bonds are determined by discounting the future cash flows at the maturity dates using prevailing risk-free rates.

### *Derivative financial instruments*

The fair values of embedded currency forwards were calculated by reference to forward exchange market rates.

The fair values of embedded prepayment option were estimated based on prices derived using the binomial pricing methodology.

The fair values of cash and cash equivalents, trade receivables, other receivables, certain receivable and payable to affiliated companies and accounts payable and accrued expenses are approximately equal to their carrying amounts due to the short-term nature of the transaction.

### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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## 21. **Commitments and Contingencies**

### Lease Commitments

#### *Operating Lease Commitments - Group as a Lessee*

The Group leases certain premises for some of its telecommunications facilities and equipment, and for most of its business centers and cell sites. The operating lease agreements are for periods ranging from one (1) to thirty (30) years from the date of the contracts, and are renewable under certain terms and conditions.

The agreements generally require certain amounts of deposit and advance rentals, which are shown as part of “Value-added input tax and other current assets” and “Value-added input tax and other noncurrent assets” accounts in the consolidated statement of financial position (Notes 9 and 11). The Group’s rentals incurred on these leases, included under “Network-related, and general and administrative expenses” account in the consolidated statements of comprehensive income.

### Agreements and Commitments with Suppliers and Carriers

The Group has entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments are made to suppliers and delivery, installation, development or construction commences only when purchase orders are served. While the development or construction is in progress, project costs are accrued based on the billings received. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the balance of the value of the related purchase orders is accrued.

The Group has existing agreements with various telecommunications carriers and operators, local exchange carriers, international exchange carriers, CMTS operators, paging and trunk radio operators, provincial operators and with the Philippine Government to cover the following services:

- a. International telecommunications operation services between servicing points in another country where the other party is domiciled and the Group's terminals servicing points in the Philippines.
- b. National and international private leased circuit services on a reciprocal basis between the other party and the Group in the timely support of services to their respective customers.
- c. Internet transport and access services and other telecommunications services that may be introduced from time to time.
- d. Interconnection of the Group's CMTS network with the CMTS, local exchange, inter-exchange and international gateway facilities with the telecommunications network of other domestic telecommunications carriers.

The Group has a commitment to construct, install, operate and maintain a nationwide CMTS using GSM technology.

#### Contingencies

On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that all cellular mobile voice service shall be billed on a six (6) seconds per pulse scheme.

DMPI, Globe Telecom and Smart Communications Inc. all filed petitions before the Court of Appeals seeking the nullification of Orders of the NTC, which sought to implement MC. DMPI maintains that the Orders of the NTC are void as being without basis in fact and law and in violation of DMPI's rights to due process. On February 19, 2010, the Court of Appeals (CA) issued an order restraining the NTC from implementing the per-pulse billing scheme.

DMPI believes that its legal position is strong. If, however, a final judgment is made against DMPI, DMPI may be contingently liable to refund to any complaining subscriber any excess charges. Refund, if any, would however only apply to those charged on a per minute basis and not to almost all of its subscribers who have been availing of its unlimited voice services.

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts, under arbitration or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information normally required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed in accordance with the provisions of this standard, on the grounds that it may prejudice the outcome of these lawsuits, claims, arbitration and assessments.

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## 22. Registration with the Board of Investments (BOI)

The Parent Company is registered with the BOI as an expanding operator of public telecommunications services and IGF-2 on a nonpioneer status with a registered capacity of 786,000 lines covering the areas of Regions I to V and the Cordillera Autonomous Region (CAR). Under the terms of its registration, the Parent Company is entitled to ITH for three (3) to six (6) years on income derived from certain areas, additional deduction of labor expenses for five (5) years but not simultaneous with the ITH, employment of foreign nationals for five (5) years and unrestricted use of consigned equipment. However, the Parent Company is subject to certain requirements such as: (a) maintaining a base equity of at least 25%; (b) filing of specialized financial reports with the BOI; and (c) the need for prior approval for the: (i) issuance of stock convertible into voting stock, (ii) repurchase of its own stock, (iii) investment in, extension of loans or purchase of bonds in substantial amount from any enterprise other than those bonds issued by the Philippine Government, (iv) expansion of its capacity, with or without incentives, and (v) transfer of ownership or control of the Parent Company.

The Parent Company is registered with the BOI as a new operator of telecommunications systems on nationwide CMTS-GSM communication network on a pioneer status with a registered capacity of 553,451 lines. Consequently, the Parent Company became entitled to the following incentives:

- a. ITH for six (6) years which is reckoned from January 2003 or from the actual start of commercial operations, whichever comes first, but in no case earlier than the date of registration; provided however, that the Parent Company has complied with the infusion of the minimum investment cost of ₱1,000 million not later than four (4) years from the date of its registration. In case of failure to comply with the said investment requirement, BOI shall be constrained to automatically amend the project's status of the registration from a pioneer status [entitled to six (6) years ITH] to a nonpioneer status [entitled to four (4) years ITH]. Prior to availment of ITH incentive, the Parent Company shall submit proof of compliance with the Tree Planting Program of BOI;
- b. Allowable additional deduction from taxable income of fifty (50) percent of the wages for the first five (5) years from the date of registration, corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by BOI of not more than US\$10,000 to one (1) worker, and provided that this incentive shall not be availed of simultaneously with the ITH;
- c. Unrestricted use of consigned equipment; and
- d. Employment of foreign nationals in technical, supervisory or advisory positions for five (5) years from the date of registration.

On October 10, 2003, the BOI registration was transferred to DMPI subject to the following conditions: (1) submission of a resolution duly approved by the BOD accepting all the terms and conditions imposed by the BOI on the registration; (2) start of the period of availment of incentives of DMPI from the date of the registration; and (3) compliance with other requirements/conditions as may be imposed by the BOI. In relation to the incentives from BOI, DMPI is required to maintain a 75:25 debt-to-equity ratio within a specific period as prescribed by the BOI.

On December 14, 2006, the Parent Company and DMPI was registered with the BOI as a new operator of infrastructure and telecommunications facilities (i.e., 3G telecommunications system) on a pioneer status with a registered capacity of 950 base transceiver stations (BTS) and 378 BTS for DMPI and the Parent

Company, respectively. The acceptance of the terms and conditions of the approval of registration states that the Parent Company and DMPI reserves the right through due process, to appeal entitlement to ITH after the issuance of the Certificate of Registration.

Under the terms of the registration, the Parent Company and DMPI are entitled to the following fiscal and non-fiscal incentives:

- a. For the first five (5) years from the date of registration, the Parent Company and DMPI shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US\$10,000 to one (1) worker.
- b. The Parent Company and DMPI shall be allowed the employment of foreign nationals in supervisory, technical or advisory positions for a period of five (5) years from date of registration. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subject to the limitations set in the registration.
- c. The Parent Company and DMPI shall be given tax credits equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for ten (10) years from start of commercial operations. The request for amendment of the date of start of commercial operations for purposes of determining the reckoning date of the ten (10)-year period shall be filed within one (1) year from date of committed start of commercial operations.
- d. The Parent Company and DMPI shall be entitled to simplification of Bureau of Customs' (Customs) procedures for the importation of equipment, spare parts, raw materials and supplies.
- e. The Parent Company and DMPI shall be entitled access to Customs Bonded Manufacturing Warehouse (CBMW), subject to Customs' rules and regulations and provided that the Parent Company and DMPI exports at least 70% of the production output.
- f. The Parent Company and DMPI shall be exempted from wharfage dues, any export tax, duty, imposts and fees for a ten (10) year period from date of registration.
- g. The Parent Company and DMPI shall be allowed importation of consigned equipment for a period of ten (10) years from date of registration, subject to the posting of re-export bond.
- h. The Parent Company and DMPI shall be exempted from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production.
- i. The Parent Company and DMPI may also qualify to import capital equipment, spare parts and accessories with exemption on the related duties from date of registration up to June 16, 2011, pursuant to Executive Order No. 528 and its implementing rules and regulations.

Under the specific terms and conditions of the BOI registration as a new operator of infrastructure and telecommunications facilities, the Parent Company and DMPI must increase its subscribed and paid-up capital stock by at least ₱1,576.6 million and must submit proof of compliance prior to availment of incentives.

The Parent Company and DMPI must submit to the BOI a quarterly report on actual investments, employment and sales pertaining to the project. Said report will be due within fifteen (15) days from end of each quarter, starting on the date of registration. The Parent Company and DMPI must also submit to the BOI an annual report of its actual investments, taxes paid and employment within one (1) month following the end of each fiscal year. Furthermore, the Parent Company and DMPI must submit a proof of compliance with the Tree Planting Program of the BOI.

DMPI's ITH entitlement expired on January 1, 2009. Accordingly, DMPI is subjected to regular 30% corporate income tax and 2% MCIT.

As of September 30, 2011, the Parent Company and DMPI have not filed an appeal for ITH entitlement under the new registration.

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## 23. Earnings Per Share

Basic EPS is calculated by dividing the net income for the period attributable to common shareholders divided by the weighted average number of common shares outstanding during the period (adjusted for any stock dividends).

The following reflects the loss and share data used in the basic EPS computations:

	September 30	
	2011	2010
	(In Thousand Pesos, Except Weighted Average Number of Common Shares and Per Share Figures)	
Net income	<b>₱15,675</b>	₱850,833
Weighted average number of common shares (Note 16)	<b>6,356,976,300</b>	6,356,976,300
Basic loss per share	<b>₱0.002</b>	₱0.134

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## 24. Operating Segment Reporting

In 2009, the Group adopted PFRS 8, *Operating Segment*, which replaces PAS 14, *Segment Reporting*, which adopted a management approach to segment reporting. Under this approach, the information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. Group financing (including interest income and interest expense) and income taxes are managed on a group basis and are not allocated to operating segments. The Group evaluates performance based on income before income tax, and earnings before interests, taxes, depreciation and amortization (EBITDA).

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statement of financial condition which is in accordance with PFRS.

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that serves different markets.

The Group derives its revenue from the following reportable services:

- Wireless communication services - represents cellular telecommunications services that allow subscribers to make and receive domestic long distance and international long distance calls to and from any place within the coverage area. Revenue principally consists of one-time registration fees, fixed monthly service fees, revenue from value-added services such as text messaging, proceeds from sale of phonekits, SIM cards and other phone accessories, and per minute airtime and toll fees for basic services which vary based primarily on the monthly volume of calls, the network at which the call terminates and the time at which the call is placed.
- Wireline voice communication services - represents fixed line telecommunications services, which offer subscribers local, domestic long distance and international long distance services, in addition to a number of value-added services in various service areas covered by the PA granted by the NTC (Note 1). Revenue principally consists of fixed monthly basic fees for service and equipment, one-time fixed line service connection fees, value-added service charges and toll fees for domestic and international long distance calls.
- Wireline data communication services - represents a variety of telecommunications services tailored to meet the specific needs of corporate communications. These include leased lines and internet services.

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## 25. Other Matters

### Key Performance Indicators

Management assessed the Group's performance based on the following key performance indicators:

	September 30		
	2011	2010	YoY change (%)
Revenues (P'000)	<b>14,025,858</b>	12,124,984	15.67
EBITDA margin <sup>a</sup>	<b>37.7%</b>	35.4%	6.60
EBIT margin <sup>b</sup>	<b>9.3%</b>	13.2%	-29.17
Cash flow provided by operating activities (P'000)	<b>5,611,382</b>	5,074,130	10.33
Net Debt to equity ratio <sup>c</sup>	<b>631x</b>	13x	

<sup>a</sup> EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, Amortization and Other Income/Charges. EBITDA is computed by deducting cost and operating expenses (excluding Depreciation and Amortization) from total revenues. EBITDA margin is calculated by dividing EBITDA over service revenues.

<sup>b</sup> EBIT is defined as Earnings Before Interest, Taxes, and Other Income/Charges. EBIT is computed by deducting costs and operating expenses from total revenues. EBIT margin is calculated by dividing EBIT over service revenues.

<sup>c</sup> Net debt to equity ratio is computed by dividing net debt by total stockholders' equity. Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (Current and noncurrent long term debt and Bonds payable).

### Other Matters

- a. Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
  - We are not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
  - The Company has not defaulted in paying its currently maturing obligations. In addition, obligations of The Company are guaranteed up to a certain extent by The Company's majority stockholders.
- b. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
  - We are not aware of any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- c. All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
  - We are not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- d. Description of any material commitments for capital expenditures, general purpose of such

commitments, expected sources of funds for such expenditures.

- DMPI has a commitment to construct, install, operate and maintain a nationwide CMTS using GSM technology. Accordingly, DMPI entered into a supply agreement with foreign suppliers including their local affiliates.
- e. Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- We are not aware of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- f. Any significant elements of income or loss that arise from issuer's continuing operations.
- We are not aware of any significant elements of income or loss that arises from the issuer's continuing operations.
- g. Seasonal aspects that have material effect on the FS.
- We are not aware of any seasonal aspects that have material effect on the FS.

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## 26. Reclassification of Accounts

Certain accounts in the 2010 statement of financial position were reclassified to conform to the 2011 financial statement presentation.