SEC Number **PW-55**
File Number ______

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)
(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

June 30, 2009

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

PLDT
We're changing lives.

August 4, 2009

Securities & Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: Director Justina Callangan
Corporation Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith three (3) copies of SEC Form 17-Q with Management's Discussion and Analysis and accompanying unaudited financial statements of the Company for the six (6) months ended June 30, 2009.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

FLORENTINO D. MABASA, JR.
Assistant Corporate Secretary

COVER SHEET

P	W	-	5	5

S.E.C. Registration No.

PHILIPPINE LONG DISTANCE
TELEPHONE COMPANY

(Company's Full Name)

RAMON COJUANGCO BLDG.
MAKATI AVE. MAKATI CITY

(Business Address: No. Street City/Town/Province)

MS. JUNE CHERYL A. CABAL	816-8534
Contact Person	Company Telephone Number

1 2	3 1	SEC FORM 17-Q	0 6	Every 2nd Tuesday
Month	Day	FORM TYPE	Month	Day

Fiscal Year

Annual Meeting

C	F	D

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

Total Amount of Borrowings

2,183,226 As at June 30, 2009	N/A	N/A
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks: Please use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE ("SRC") AND
SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2009

2. SEC Identification Number PW-55   3. BIR Tax Identification No. 000-488-793

4. Philippine Long Distance Telephone Company
   Exact name of registrant as specified in its charter

5. Republic of the Philippines
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City   0721
   Address of registrant's principal office   Postal Code

8. (632) 816-8556
   Registrant'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 of the SRC

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	186,808,233 shares as at June 30, 2009

11. Are any or all of these securities listed on the Philippine Stock Exchange?

    Yes [X]   No [ ]

12. Check whether the registrant

    (a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

    Yes [X]   No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [X]   No [ ]

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	1
Financial Highlights and Key Performance Indicators	2
Overview	3
Results of Operations	4
Wireless	5
Revenues	5
Expenses	11
Other Income (Expenses)	13
Provision for Income Tax	14
Net Income	14
Fixed Line	14
Revenues	14
Expenses	18
Other Income (Expenses)	19
Provision for Income Tax	20
Net Income	20
Information and Communications Technology	20
Revenues	20
Expenses	22
Other Income	23
Provision for (Benefit from) Income Tax	24
Net Income	24
Liquidity and Capital Resources	24
Operating Activities	25
Investing Activities	26
Financing Activities	26
Off-Statement of Financial Position Arrangements	29
Equity Financing	29
Contractual Obligations and Commercial Commitments	29
Quantitative and Qualitative Disclosures about Market Risks	30
Impact of Inflation and Changing Prices	31
PART II – OTHER INFORMATION	31
Related Party Transactions	33
ANNEX – Aging of Accounts Receivable	A-1
SIGNATURES	S-1

PART I –– FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at June 30, 2009 (unaudited) and December 31, 2008 (audited) and for the six months ended June 30, 2009 and 2008 (unaudited) and related notes (pages F-1 to F-110) are filed as part of this report on Form 17-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (please see Note 2 – Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

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 related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, or PFRS, which has certain differences from International Financial Reporting Standards as issued by the International Accounting Standards Board. PFRS differ in certain significant respects from generally accepted accounting principles in the U.S.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "Philippine pesos," "Php" or "pesos" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "yen" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php48.16 to US$1.00, the volume weighted average exchange rate at June 30, 2009 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for earnings per common share, operational data and exchange rates)	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)	Increase (Decrease) Amount	%
Consolidated Statements of Financial Position				
Total assets	Php261,703	Php252,558	Php9,145	4
Property, plant and equipment – net	158,944	160,326	(1,382)	(1)
Cash and cash equivalents and short-term investments	43,635	40,354	3,281	8
Total equity attributable to equity holders of PLDT	99,297	105,531	(6,234)	(6)
Notes payable and long-term debt	82,461	73,911	8,550	12
Net debt[1] to equity ratio	0.39x	0.32x	–	–

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Increase (Decrease) Amount	%
	(Unaudited)			
Consolidated Income Statements				
Revenues	Php74,078	Php71,604	Php2,474	3
Expenses	43,318	40,887	2,431	6
Other expenses	2,443	648	1,795	277
Income before income tax	28,317	30,069	(1,752)	(6)
Net income attributable to equity holders of PLDT	19,720	19,270	450	2
Pre-tax income margin	38%	42%	–	–
Net income margin	27%	27%	–	–
Earnings per common share				
Basic	104.22	100.90	3.32	3
Diluted	104.20	100.89	3.31	3
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	34,348	40,386	(6,038)	(15)
Net cash used in investing activities	5,484	8,603	(3,119)	(36)
Capital expenditures	10,666	8,684	1,982	23
Net cash used in financing activities	21,091	31,272	(10,181)	(33)
Operational Data				
Number of cellular subscribers	38,520,030	33,241,026	5,279,004	16
Number of fixed line subscribers	1,786,462	1,788,571	(2,109)	–
Number of broadband subscribers	1,215,490	757,670	457,820	60
Fixed Line	*509,687*	*335,016*	*174,671*	*52*
Wireless	*705,803*	*422,654*	*283,149*	*67*
Number of employees	29,177	30,584	(1,407)	(5)
Fixed Line	*8,066*	*8,028*	*38*	–
Wireless	*5,455*	*5,592*	*(137)*	*(2)*
Information and Communications Technology	*15,656*	*16,964*	*(1,308)*	*(8)*

Exchange Rates	**Php per US$**
June 30, 2009	Php48.16
December 31, 2008	47.65
June 30, 2008	44.90
December 31, 2007	41.41

(1) Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (notes payable and long-term debt, including current portion).

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main segments:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, Pilipino Telephone Corporation, or Piltel, and Connectivity Unlimited Resources Enterprises, or CURE, our cellular service providers; Smart Broadband, Inc., or SBI, and Airborne Access Corporation, or Airborne Access, our wireless broadband providers; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite, and ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, our satellite operators;

- *Fixed Line* — fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries, namely, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel (on June 4, 2008, PLDT acquired the fixed line assets of Piltel), Bonifacio Communications Corporation, Philcom Corporation, or Philcom, and PLDT Global Corporation, or PLDT Global, all of which together account for approximately 3% of our consolidated fixed line subscribers; and

- *Information and Communications Technology, or ICT* — information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT, and BayanTrade, Inc.; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, netGames, Inc., or netGames, and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 10 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements.

We registered consolidated revenues of Php74,078 million in the first half of 2009, an increase of Php2,474 million, or 3%, as compared with Php71,604 million in the same period in 2008 primarily due to an increase in our service revenues by Php2,522 million resulting largely from an increase in the service revenues of our wireless business, which was primarily due to an increase in the number of our cellular and broadband subscribers.

Consolidated expenses increased by Php2,431 million, or 6%, to Php43,318 million in the first half of 2009 from Php40,887 million in the same period in 2008, largely resulting from increases in compensation and employee benefits, depreciation and amortization, rent, and repairs and maintenance partly offset by lower professional and other contracted services, taxes and licenses, communication, training and travel, and selling and promotions expenses.

Consolidated other expenses increased by Php1,795 million, or 277%, to Php2,443 million in the first half of 2009 as compared with Php648 million in the same period in 2008. The increase was primarily due to the combined effects of the following: (i) losses on derivative financial instruments of Php1,631 million in the first half of 2009 as against gains on derivative financial instruments of Php4,001 million in the same period in 2008 on account of a loss on mark-to-market valuation on principal only currency swaps and the effect of the de-designation of foreign currency swaps and option contracts in the first half of 2008; (ii) a decrease in foreign exchange losses by Php3,263 million on account of lower loss on revaluation of net foreign currency-denominated liabilities owing to lower depreciation of the Philippine peso in the first half of 2009; (iii) a decrease in net financing costs by Php105 million mainly due to lower interest on loans and related items on account of lower debt level; and (iv) higher interest income of Php12 million due to higher average level of cash balances.

Net income attributable to equity holders of PLDT increased by Php450 million, or 2%, to Php19,720 million in the first half of 2009 from Php19,270 million in the same period in 2008. The increase is mainly attributable to an increase in consolidated revenues by Php2,474 million, a decrease in the consolidated provision for income tax by Php2,391 million due to a reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009 and availment of optional standard deduction in the computation of income tax by our wireless business units, partially offset by increases in consolidated expenses and other expenses by Php2,431 million and Php1,795 million, respectively. Likewise, our consolidated basic and diluted earnings per common share increased to Php104.22 and Php104.20, respectively, in the first half of 2009 from Php100.90 and Php100.89, respectively, in the same period in 2008. In the first half of 2009, as a result of the share buyback program implemented in 2008, there were 186.8 million PLDT common shares outstanding as compared with 187.5 million in the same period in 2008.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues, expenses, other income (expenses) and net income for the six months ended June 30, 2009 and 2008. The majority of our revenues are derived from our operations within the Philippines.

	Wireless		Fixed Line		ICT		Inter-segment Transactions	Total	
					(in millions)				
For the six months ended June 30, 2009 (Unaudited)									
Revenues	Php48,972		Php25,548		Php5,453		(Php5,895)	Php74,078	
Expenses	25,350		18,440		5,447		(5,919)	43,318	
Other income (expenses)	724		(3,125)		38		(80)	(2,443)	
Income before income tax	24,346		3,983		44		(56)	28,317	
Net income	17,437		2,871		2		(39)	20,271	
Net income attributable to equity holders of PLDT	16,887		2,868		4		(39)	19,720	
For the six months ended June 30, 2008 (Unaudited)									
Revenues	46,690		24,762		5,165		(5,013)	71,604	
Expenses	23,528		17,191		5,209		(5,041)	40,887	
Other income (expenses)	(1,574)		952		46		(72)	(648)	
Income before income tax	21,588		8,523		2		(44)	30,069	
Net income	13,969		5,699		8		(44)	19,632	
Net income attributable to equity holders of PLDT	13,587		5,697		30		(44)	19,270	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues	Php2,282	5	Php786	3	Php288	6	(Php882)	Php2,474	3
Expenses	1,822	8	1,249	7	238	5	(878)	2,431	6
Other income (expenses)	2,298	146	(4,077)	(428)	(8)	(17)	(8)	(1,795)	(277)
Income before income tax	2,758	13	(4,540)	(53)	42	2,100	(12)	(1,752)	(6)
Net income	3,468	25	(2,828)	(50)	(6)	(75)	5	639	3
Net income attributable to equity holders of PLDT	3,300	24	(2,829)	(50)	(26)	(87)	5	450	2

Wireless

Revenues

The following table summarizes our unaudited total revenues from our wireless business for the six months ended June 30, 2009 and 2008 by service segment:

	2009	%	2008	%	Increase (Decrease) Amount	%
			(in millions)			
Wireless Services:						
Service Revenues:						
Cellular	Php44,610	91	Php43,013	92	Php1,597	4
Wireless broadband, satellite and others	3,466	7	2,767	6	699	25
	48,076	98	45,780	98	2,296	5
Non-Service Revenues:						
Sale of cellular handsets, cellular SIM-packs and broadband data modems	896	2	910	2	(14)	(2)
Total Wireless Revenues	Php48,972	100	Php46,690	100	Php2,282	5

Service Revenues

Our wireless service revenues increased by Php2,296 million, or 5%, to Php48,076 million in the first half of 2009 as compared with Php45,780 million in the same period in 2008, mainly as a result of the growth in the cellular and wireless broadband subscriber base. In particular, revenues from short messaging service, or SMS, increased due to the larger cellular subscriber base, and lower dealer discounts and interconnection expense. Voice revenues also increased due to the growth in international inbound call volumes in the first half of 2009 as compared with the same period in 2008. Such increases were also complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar on our dollar-linked revenues from Php42.00 in the first half of 2008 to Php47.83 in the same period in 2009. However, because the growth in our subscriber base was mainly in the lower income segment of the Philippine wireless market, average monthly cellular ARPUs for the first half of 2009 were lower as compared with the same period in 2008. As a percentage of our total wireless revenues, service revenues contributed 98% in each of the first half of 2009 and 2008.

Cellular Service

Our cellular service revenues in the first half of 2009 amounted to Php44,610 million, an increase of Php1,597 million, or 4%, from Php43,013 million in the same period in 2008. Cellular service revenues accounted for 93% of our wireless service revenues in the first half of 2009 as compared with 94% in the same period in 2008.

The following table shows the breakdown of our unaudited cellular service revenues and other key measures of our cellular business as at and for the six months ended June 30, 2009 and 2008:

	2009	2008	Increase Amount	Increase %
		(in millions)		
Cellular service revenues	Php44,610	Php43,013	Php1,597	4
By service type	*43,310*	*41,879*	*1,431*	*3*
Prepaid	40,073	38,805	1,268	3
Postpaid	3,237	3,074	163	5
By component	*43,310*	*41,879*	*1,431*	*3*
Voice	19,064	18,116	948	5
Data	24,246	23,763	483	2
Others[1]	*1,300*	*1,134*	*166*	*15*

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

	2009	2008	Increase (Decrease) Amount	Increase (Decrease) %
Cellular subscriber base	38,520,030	33,241,026	5,279,004	16
Prepaid	38,094,820	32,893,002	5,201,818	16
Smart	*21,444,934*	*20,410,065*	*1,034,869*	*5*
Piltel	*16,584,562*	*12,482,937*	*4,101,625*	*33*
CURE [1]	*65,324*	–	*65,324*	*100*
Postpaid	425,210	348,024	77,186	22
Systemwide traffic volumes (in millions)				
Calls (in minutes)	3,598	3,317	281	8
Domestic – outbound	2,139	1,940	199	10
International	1,459	1,377	82	6
Inbound	*1,360*	*1,265*	*95*	*8*
Outbound	*99*	*112*	*(13)*	*(12)*
SMS count	138,762	121,354	17,408	14
Text messages	137,918	120,515	17,403	14
Domestic	137,764	120,369	17,395	14
Bucket-Priced	*127,425*	*107,321*	*20,104*	*19*
Standard	*10,339*	*13,048*	*(2,709)*	*(21)*
International	154	146	8	5
Value-Added Services	835	824	11	1
Financial Services	9	15	(6)	(40)

[1] *The red mobile brand was launched in November 2008.*

Revenues attributable to our cellular prepaid service amounted to Php40,073 million in the first half of 2009, a 3% increase over the Php38,805 million earned in the same period in 2008. Prepaid service revenues accounted for 93% of voice and data revenues in each of the first half of 2009 and 2008. Revenues attributable to Smart's postpaid service amounted to Php3,237 million in the first half of 2009, a 5% increase over the Php3,074 million earned in the same period in 2008, and accounted for 7% of voice and data revenues in each of the first half of 2009 and 2008.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services, or VAS, such as voice mail and outbound international roaming, increased by Php948 million, or 5%, to Php19,064 million in the first half of 2009 from Php18,116 million in the same period in 2008 primarily due to the growth in inbound international call volumes complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso against the U.S. dollar on our dollar-linked revenues from Php42.00 in the first half of 2008 to Php47.83 in the same period in 2009. Cellular voice services accounted for 43% of cellular service revenues in the first half of 2009 as compared with 42% in the same period in 2008.

Domestic outbound calls totaled 2,139 million minutes in the first half of 2009, an increase of 199 million minutes, or 10%, as compared with 1,940 million minutes in the same period in 2008. International inbound and outbound calls totaled 1,459 million minutes in the first half of 2009, an increase of 82 million minutes, or 6%, as compared with 1,377 million minutes in the same period in 2008, mainly due to an increase in cellular subscriber base.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as VAS, increased by Php483 million, or 2%, to Php24,246 million in the first half of 2009 from Php23,763 million in the same period in 2008. Cellular data services accounted for 54% and 55% of cellular service revenues in the first half of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited cellular data revenues for the six months ended June 30, 2009 and 2008:

			Increase (Decrease)	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Text messaging				
Domestic	Php22,203	Php21,558	Php645	3
Bucket-Priced	*13,850*	*13,433*	*417*	*3*
Standard	*8,353*	*8,125*	*228*	*3*
International	791	968	(177)	(18)
	22,994	22,526	468	2
Value-added services				
Standard(1)	525	748	(223)	(30)
Rich Media(2)	500	227	273	120
Pasa Load	213	235	(22)	(9)
	1,238	1,210	28	2
Financial services				
Smart Money	12	25	(13)	(52)
Mobile Banking	2	2	–	–
	14	27	(13)	(48)
Total	Php24,246	Php23,763	Php483	2

(1) *Includes standard services such as info-on-demand, ringtone and logo download, etc.*
(2) *Includes Multimedia Messaging System, or MMS, internet browsing, General Packet Radio Service, or GPRS, etc.*

Text messaging-related services contributed revenues of Php22,994 million in the first half of 2009, an increase of Php468 million, or 2%, as compared with Php22,526 million in the same period in 2008, and accounted for 95% of the total cellular data revenues in each of the first half of 2009 and 2008. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings complemented by an increase in our standard texting services. Text messaging revenues from the various bucket-priced plans totaled Php13,850 million in the first half of 2009, an increase of Php417 million, or 3%, as compared with Php13,433 million in the same period in 2008. Likewise, standard text messaging revenues increased by Php228 million to Php8,353 million in the first half of 2009 from Php8,125 million in the same period in 2008.

Standard text messages totaled 10,339 million in the first half of 2009, a decrease of 2,709 million, or 21%, as compared with 13,048 million in the same period in 2008 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first half of 2009 totaled 127,425 million, an increase of 20,104 million, or 19%, as compared with 107,321 million in the same period in 2008.

VAS, which contributed revenues of Php1,238 million in the first half of 2009, increased by Php28 million, or 2%, from Php1,210 million in the same period in 2008 primarily due to higher usage of rich media services, partially offset by lower usage of standard services and *Pasa Load*, which is a service allowing prepaid subscribers to transfer small denominations of airtime credits to other prepaid subscribers, owing to the continued patronage of low-denomination top-ups.

Subscriber Base, ARPU and Churn Rates

At the end of the first half of 2009, Smart, Piltel and CURE cellular subscribers totaled 38,520,030, an increase of 5,279,004, or 16%, over their combined cellular subscriber base of 33,241,026 at the end of the same period in 2008. Our cellular prepaid subscriber base grew by 16% to 38,094,820 in the first half of 2009 from 32,893,002 in the same period in 2008, while our cellular postpaid subscriber base increased by 22% to 425,210 in the first half of 2009 from 348,024 in the same period in 2008. Prepaid subscribers accounted for 99% of our total subscriber base in each of the first half of 2009 and 2008. Prepaid and postpaid subscribers reflected net activations of 3,268,352 and 27,074, respectively, in the first half of 2009.

Our unaudited net subscriber activations for the six months ended June 30, 2009 and 2008 were as follows:

			Increase (Decrease)	
	2009	**2008**	**Amount**	**%**
Prepaid	3,268,352	3,193,852	74,500	2
Smart	*943,317*	*412,741*	*530,576*	*129*
Piltel	*2,276,069*	*2,781,111*	*(505,042)*	*(18)*
CURE[(1)]	*48,966*	–	*48,966*	*100*
Postpaid	27,074	6,144	20,930	341
Total	3,295,426	3,199,996	95,430	3

(1) *The red mobile brand was launched in November 2008.*

For Smart prepaid, the average monthly churn rate for the first half of 2009 and 2008 was 4.3% and 4.8%, respectively, while the average monthly churn rate for Piltel subscribers was 4.3% and 4.2% in the first half of 2009 and 2008, respectively.

The average monthly churn rate for Smart's postpaid subscribers were 1.7% and 1.4% for the first half of 2009 and 2008, respectively. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or if the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is temporarily disconnected. If the account is not settled within 30 days from temporary disconnection, the account is then considered as churned. From the time that temporary disconnection is initiated, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

The following table summarizes our unaudited cellular average monthly ARPUs for the six months ended June 30, 2009 and 2008:

	Gross[1]		Increase (Decrease)		Net[2]		Increase (Decrease)	
	2009	**2008**	**Amount**	**%**	**2009**	**2008**	**Amount**	**%**
Prepaid								
Smart	Php270	Php293	(Php23)	(8)	Php214	Php231	(Php17)	(7)
Piltel	172	203	(31)	(15)	141	161	(20)	(12)
CURE[3]	21	–	21	100	12	–	12	100
Prepaid – Blended[4]	228	261	(33)	(13)	183	206	(23)	(11)
Postpaid – Smart	1,839	2,073	(234)	(11)	1,321	1,491	(170)	(11)
Prepaid and Postpaid Blended[5]	246	281	(35)	(12)	195	220	(25)	(11)

(1) *Gross monthly ARPU is calculated by dividing gross cellular service revenues for the month, including discounts, allocated content-provider costs and interconnection income but excluding inbound roaming revenues, by the average number of subscribers in the month.*
(2) *Net monthly ARPU is calculated by dividing gross cellular service revenues for the month, including interconnection income net of interconnection expense, but net of discounts and content-provider costs, by the average number of subscribers in the month.*
(3) *The red mobile brand was launched in November 2008.*
(4) *The average monthly ARPU of Smart and Piltel.*
(5) *The average monthly ARPU of prepaid and postpaid subscribers of Smart and prepaid subscribers of Piltel.*

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Prepaid blended gross average monthly ARPU in the first half of 2009 was Php228, a decrease of 13%, as compared with Php261 in the same period in 2008. The decrease was primarily due to a decline in the average outbound and inbound domestic voice and text messaging revenue per subscriber in the first half of 2009 as compared with the same period in 2008. On a net basis, prepaid blended average monthly ARPU in the first half of 2009 was Php183, a decrease of 11%, as compared with Php206 in the same period in 2008.

Gross average monthly ARPU for postpaid subscribers decreased by 11% to Php1,839 while net average monthly ARPU decreased to Php1,321 in the first half of 2009 as compared with Php2,073 and Php1,491 in the same period in 2008, respectively. Prepaid and postpaid gross average monthly blended ARPU was Php246 in the first half of 2009, a decrease of 12%, as compared with Php281 in the same period in 2008. Net average monthly prepaid and postpaid blended ARPU decreased by 11% to Php195 in the first half of 2009 from Php220 in the same period in 2008.

Our average quarterly prepaid and postpaid ARPUs for the first two quarters of 2009 and four quarters of 2008 were as follows:

	Prepaid						Postpaid	
	Smart		Piltel		CURE[1]		Smart	
	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]	Gross[2]	Net[3]
2008 (Audited)								
First Quarter	292	230	207	163	–	–	2,013	1,472
Second Quarter	294	232	199	159	–	–	2,134	1,510
Third Quarter	285	223	178	148	–	–	2,078	1,505
Fourth Quarter	291	234	192	162	48	39	2,037	1,445
2009 (Unaudited)								
First Quarter	Php272	Php216	Php176	Php144	Php25	Php14	Php1,863	Php1,364
Second Quarter	269	212	168	138	16	10	1,816	1,278

(1) *The red mobile brand was launched in November 2008.*
(2) *Gross quarterly ARPU is calculated based on the average of the gross monthly ARPUs for the quarter.*
(3) *Net quarterly ARPU is calculated based on the average of the net monthly ARPUs for the quarter.*

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of wireless broadband service revenues from SBI, rentals received for the lease of Mabuhay Satellite's transponders, charges for ACeS Philippines' satellite information and messaging services and service revenues generated by the mobile virtual network operations of PLDT Global's subsidiary. Gross revenues from these services in the first half of 2009 amounted to Php3,466 million, an increase of Php699 million, or 25%, from Php2,767 million in the same period in 2008 principally due to the growth in our wireless broadband business complemented by the favorable effect of the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php42.00 in the first half of 2008 to Php47.83 in the same period in 2009 on our U.S. dollar and U.S. dollar-linked revenues, partially offset by lower satellite transponder rental revenues owing to lower rental charges and a decrease in the number of transponders being leased out.

SBI offers a number of wireless broadband services and had 689,262 subscribers in the first half of 2009 as compared with 407,916 subscribers in the same period in 2008. Wireless broadband revenues contributed Php2,518 million to wireless service revenues in the first half of 2009, increasing by Php570 million, or 29%, as compared with Php1,948 million in the same period in 2008.

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

In 2007, we introduced *SmartBro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers may avail of various plans where monthly fees depend on internet speeds, ranging from 384 Kbps to up to 2 Mbps, and hours of internet usage. On April 13, 2008, we launched the *SmartBro Plug-It Prepaid* which offers 30-minute internet access for every Php10 worth of load. In March 2009, we introduced *SmartBro Share-It*, which allows users to share their broadband access with other computers in a home network via a WiFi router. *SmartBro Share-It* runs on a High Speed Packet Access, or HSPA, network ready for transfer capacities of up to 2 Mbps. The monthly service fee of Php999 includes 90 hours per month of high-speed internet usage.

On May 24, 2009, Smart introduced Sandbox, the latest web platform from Smart which unites social networking, online media content downloading, as well as web services. Browsing on the portal is free of charge but downloading content is charged accordingly. Content is delivered straight to the subcriber's mobile and the cost for any requested music, game and video is automatically charged to the subscriber's prepaid load or added to the monthly service fee for postpaid subscribers.

On June 26, 2009, *Smartalk*, Smart's unlimited voice offering, was made available to all Smart Buddy and Smart Gold subscribers nationwide. The new service does not require any changes in SIM or cellular phone number and enables Smart Buddy and Smart Gold subscribers to make unlimited calls to over the 38 million mobile phone users on the Smart network. Smart subscribers will be able to avail of the service, via registration, by purchasing loads for unlimited calls which come in two denominations: "*Smartalk 100*" which for Php100 offers five days of unlimited calls and "*Smartalk 500*" which offers 30 days of unlimited calls to any subscriber on the Smart network for only Php500.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group's nationwide wireless network (using GPRS, EDGE, 3G/HSDPA/HSPA and WiFi technologies). This service had 16,541 subscribers in the first half of 2009 as compared with 14,738 subscribers in the same period in 2008 and contributed Php115 million to our data revenues in the first half of 2009, increasing by Php32 million, or 39%, as compared with Php83 million in the same period in 2008.

Non-Service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets, cellular SIM-packs and broadband data modems. Our wireless non-service revenues decreased by Php14 million, or 2%, to Php896 million in the first half of 2009 as compared with Php910 million in the same period in 2008 primarily due to the lower sales volume of cellular phonekits and SIM-packs partly offset by increased sales of broadband data modems.

Expenses

Expenses associated with our wireless business in the first half of 2009 amounted to Php25,350 million, an increase of Php1,822 million, or 8%, from Php23,528 million in the same period in 2008. A significant portion of this increase was attributable to compensation and employee benefits, rent, depreciation and amortization, cost of sales, and repairs and maintenance partially offset by lower expenses related to selling and promotions, taxes and licenses, and asset impairment. As a percentage of our total wireless revenues, expenses associated with our wireless business accounted for 52% and 50% in the first half of 2009 and 2008, respectively.

Cellular business expenses accounted for 86% of our wireless business expenses, while wireless broadband, satellite and other business expenses accounted for the remaining 14% of our wireless business expenses in the first half of 2009 as compared with 88% and 12%, respectively, in the same period in 2008.

The following table summarizes the breakdown of our unaudited total wireless-related expenses for the six months ended June 30, 2009 and 2008 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Wireless Services:						
Depreciation and amortization	Php6,520	26	Php6,188	26	Php332	5
Rent	5,234	21	4,604	20	630	14
Compensation and employee benefits[1]	3,176	13	2,381	10	795	33
Repairs and maintenance	2,277	9	2,156	9	121	6
Cost of sales	2,120	8	1,938	8	182	9
Selling and promotions	2,084	8	2,206	10	(122)	(6)
Professional and other contracted services	1,245	5	1,239	5	6	–
Taxes and licenses	857	3	935	4	(78)	(8)
Communication, training and travel	471	2	524	2	(53)	(10)
Asset impairment	446	2	505	2	(59)	(12)
Insurance and security services	375	1	352	2	23	7
Amortization of intangible assets	67	–	66	–	1	2
Other expenses	478	2	434	2	44	10
Total	Php25,350	100	Php23,528	100	Php1,822	8

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

Depreciation and amortization charges increased by Php332 million, or 5%, to Php6,520 million in the first half of 2009 principally due to increased depreciation on the growing asset base of 3G and broadband networks, and broadband customer-deployed equipment, partly offset by a decrease in the depreciable asset base of our 2G network.

Rent expenses increased by Php630 million, or 14%, to Php5,234 million on account of an increase in international and domestic circuits leased by Smart from PLDT, as well as higher site and rental expenses. In the first half of 2009, we had 5,433 GSM cell sites and 8,742 base stations, as compared with 5,199 GSM cell sites and 7,495 base stations in the same period in 2008.

Compensation and employee benefits expenses increased by Php795 million, or 33%, to Php3,176 million primarily due to merit-based increases and employee upgrades and promotions coupled with increased provisions for LTIP, MRP and pension costs. Smart and subsidiaries' employee headcount decreased by 138 to 5,401 in the first half of 2009 as compared with 5,539 in the same period in 2008. For further discussion of our LTIP, please see *Note 25 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php121 million, or 6%, to Php2,277 million mainly due to an increase in network maintenance costs and electricity consumption partly offset by lower software maintenance expenses and fuel costs for power generation.

Cost of sales increased by Php182 million, or 9%, to Php2,120 million primarily due to higher sales volume of broadband data modems in the first half of 2009, partly offset by the lower volume of phonekits and SIM-packs.

Selling and promotion expenses decreased by Php122 million, or 6%, to Php2,084 million primarily due to decreases in advertising, promotional campaigns and commission expenses.

Professional and other contracted services increased by Php6 million to Php1,245 million primarily due to higher call center and outsourced service fees.

Taxes and licenses decreased by Php78 million, or 8%, to Php857 million primarily due to lower business-related taxes.

Communication, training and travel expenses decreased by Php53 million, or 10%, to Php471 million primarily due to lower fuel costs for vehicles and lower training and travel expenses incurred in the first half of 2009.

Asset impairment decreased by Php59 million, or 12%, to Php446 million mainly due to the impairment on investment in ACeS International Limited through ACeS Philippines in 2008. Such decrease in impairment was partially offset by higher provision for doubtful accounts on receivables.

Insurance and security services increased by Php23 million, or 7%, to Php375 million primarily due to higher site security expense.

Other expenses increased by Php44 million, or 10%, to Php478 million primarily due to higher various business and wireless operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our unaudited total wireless-related other expenses for the six months ended June 30, 2009 and 2008:

			Change	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php665	Php652	Php13	2
Losses on derivative financial instruments – net	(11)	(148)	137	(93)
Foreign exchange losses – net	(64)	(1,100)	1,036	(94)
Financing costs – net	(1,203)	(1,098)	(105)	10
Others	1,337	120	1,217	1,014
Total	Php724	(Php1,574)	Php2,298	146

Our wireless business segment generated other income – net of Php724 million in the first half of 2009, an improvement of Php2,298 million, or 146%, from other expenses – net of Php1,574 million in the same period in 2008 primarily due to the combined effects of the following: (1) increase in other income by Php1,217 million mainly due to Smart's 2008 tax adjustments; (2) lower net foreign exchange losses by Php1,036 million on account of a lower loss on the revaluation of net foreign currency-denominated liabilities owing to lower depreciation of the Philippine peso in the first half of 2009; and (3) lower net losses on derivative financial instruments by Php137 million relating to the loss in the mark-to-market valuation of forward foreign exchange contracts.

Provision for Income Tax

Provision for income tax decreased by Php710 million, or 9%, to Php6,909 million in the first half of 2009 from Php7,619 million in the same period in 2008. In the first half of 2009, the effective tax rate for our wireless business was 28% as compared with 35% in the same period in 2008 mainly due to reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009 and availment of optional standard deduction in the computation of regular corporate income tax.

Net Income

Our wireless business segment recorded a net income of Php17,437 million in the first half of 2009, an increase of Php3,468 million, or 25%, from Php13,969 million recorded in the same period in 2008 on account of a Php2,296 million increase in wireless service revenues, higher other income – net by Php2,298 million and lower provision for income tax by Php710 million, partially offset by an increase in wireless-related expenses of Php1,822 million.

Fixed Line

Revenues

Revenues generated from our fixed line business in the first half of 2009 totaled Php25,548 million, an increase of Php786 million, or 3%, from Php24,762 million in the same period in 2008.

The following table summarizes the unaudited total revenues from our fixed line business for the six months ended June 30, 2009 and 2008 by service segment:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Fixed Line Services:						
Service Revenues:						
Local exchange	Php7,845	31	Php8,031	32	(Php186)	(2)
International long distance	3,196	12	3,669	15	(473)	(13)
National long distance	3,186	12	3,244	13	(58)	(2)
Data and other network	10,468	41	8,951	36	1,517	17
Miscellaneous	722	3	688	3	34	5
	25,417	99	24,583	99	834	3
Non-Service Revenues:						
Sale of computers	131	1	179	1	(48)	(27)
Total Fixed Line Revenues	Php25,548	100	Php24,762	100	Php786	3

Service Revenues

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Our fixed line service revenues increased by Php834 million, or 3%, to Php25,417 million in the first half of 2009 from Php24,583 million in the same period in 2008 primarily due to an increase in revenues from our data and other network services as a result of higher revenues contributed by our DSL and Diginet services, and miscellaneous services, partially offset by the decrease in revenues from our international long distance, local exchange and national long distance services.

Local Exchange Service

The following table summarizes the key measures of our unaudited local exchange service business as at and for the six months ended June 30, 2009 and 2008:

	2009	2008	Increase (Decrease) Amount	%
Total local exchange service revenues (in millions)	Php7,845	Php8,031	(Php186)	(2)
Number of fixed line subscribers	1,786,462	1,788,571	(2,109)	–
Postpaid	1,559,465	1,535,050	24,415	2
Prepaid	226,997	253,521	(26,524)	(10)
Number of fixed line employees	8,066	8,028	38	–
Number of fixed line subscribers per employee	221	223	(2)	(1)

Revenues from our local exchange service decreased by Php186 million, or 2%, to Php7,845 million in the first half of 2009 from Php8,031 million in the same period in 2008 primarily owing to a decrease in average revenue per user on account of lower fixed charges due to bundling of voice and data services, partially offset by an increase in the average number of postpaid billed lines as a result of the launching of *PLDT Landline Plus*, increase in demand for bundled voice and data services and higher service connection charges. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 31% in the first half of 2009 as compared with 33% in the same period in 2008.

In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone which can be brought around the area where it was applied for. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. In March 2008, we introduced the prepaid counterpart of *PLDT Landline Plus*. As at June 30, 2009, there were a total of 155,832 active *PLDT Landline Plus* subscribers, of which 81,114 and 74,718 were postpaid and prepaid subscribers, respectively.

International Long Distance Service

The following table shows our unaudited fixed line international long distance service revenues and call volumes for the six months ended June 30, 2009 and 2008:

	2009	2008	Decrease Amount	%
Total international long distance service revenues (in millions)	Php3,196	Php3,669	(Php473)	(13)
Inbound	2,619	2,974	(355)	(12)
Outbound	577	695	(118)	(17)
International call volumes (in million minutes, except call ratio)	927	1,013	(86)	(8)
Inbound	820	889	(69)	(8)
Outbound	107	124	(17)	(14)
Inbound-outbound call ratio	7.7:1	7.2:1	–	–

Our total international long distance service revenues decreased by Php473 million, or 13%, to Php3,196 million in the first half of 2009 from Php3,669 million in the same period in 2008 primarily due to a decrease in inbound and outbound call volumes due to cellular substitution and the availability of alternative economical modes of communications, such as email, text messaging and/or VoIP calls with lower international calling rates, among others, partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar in the first half of 2009. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 13% in the first half of 2009 from 15% in the same period in 2008.

Our revenues from inbound international long distance service decreased by Php355 million, or 12%, to Php2,619 million in the first half of 2009 from Php2,974 million in the same period in 2008 due to a decline in inbound traffic volume by 69 million minutes to 820 million minutes in the first half of 2009 with more traffic terminating to cellular operators where the net revenue retained by us is lower. The decreasing effect was partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar which increased our inbound international long distance revenues, since settlement charges for inbound calls are primarily billed in U.S. dollars.

Our revenues from outbound international long distance service decreased by Php118 million, or 17%, to Php577 million in the first half of 2009 from Php695 million in the same period in 2008 primarily due to the decline in outbound international call volumes partially offset by the depreciation of the weighted average exchange rate of the Philippine peso to the U.S. dollar from Php42.00 in the first half of 2008 to Php47.83 in the same period in 2009, resulting in an increase in the average billing rates to Php47.85 in the first half of 2009 from Php41.55 in the same period in 2008.

National Long Distance Service

The following table shows our unaudited national long distance service revenues and call volumes for the six months ended June 30, 2009 and 2008:

			Decrease	
	2009	**2008**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php3,186	Php3,244	(Php58)	(2)
National long distance call volumes (in million minutes)	1,003	1,026	(23)	(2)

Our national long distance service revenues decreased by Php58 million, or 2%, to Php3,186 million in the first half of 2009 from Php3,244 million in the same period in 2008 primarily due to a decrease in call volumes, partially offset by an increase in average revenue per minute for our national long distance services due to ceasing certain promotions on our national long distance calling rates. The percentage contribution of national long distance revenues to our fixed line service revenues decreased to 12% in the first half of 2009 from 13% in the same period in 2008.

Data and Other Network Services

The following table shows information of our unaudited data and other network service revenues for the six months ended June 30, 2009 and 2008:

			Increase	
	2009	**2008**	**Amount**	**%**
Data and other network service revenues (in millions)	Php10,468	Php8,951	Php1,517	17
Number of *DSL* broadband subscribers	509,687	335,016	174,671	52

In the first half of 2009, our data and other network services posted revenues of Php10,468 million, an increase of Php1,517 million, or 17%, as compared with Php8,951 million in the same period in 2008 primarily due to increases in leased lines, IP-based and packet-based data services, particularly global data connectivity and PLDT DSL, partially offset by a decrease in *PLDT Vibe* service subscribers. The percentage contribution of this service segment to our fixed line service revenues increased to 41% in the first half of 2009 from 36% in the same period in 2008.

IP-based products include *PLDT DSL* (*myDSL* and *BizDSL*), *PLDT Vibe* and I-Gate. *PLDT DSL* broadband internet service is targeted for heavy individual internet users as well as for small and medium enterprises, while *PLDT Vibe,* PLDT's dial-up/narrowband internet service, is targeted for light to medium residential or individual internet users. I-Gate, our dedicated leased line internet access service, on the other hand, is targeted at enterprises and VAS providers.

DSL contributed revenues of Php3,294 million in the first half of 2009, an increase of Php768 million, or 30%, as compared with Php2,526 million in the same period in 2008 primarily due to an increase in the number of subscribers, which was partially offset by lower ARPU as a result of launching of lower-priced promotional plans. DSL subscribers increased by 52% to 509,687 subscribers in the first half of 2009 from 335,016 subscribers in the same period in 2008.

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

The steady demand for dedicated international connectivity or private networking from the corporate market, offshore and outsourcing industries, and semiconductor market to use PLDT's extensive international alliances and domestic data offerings – Fibernet, Arcstar, other Global Service Providers such as BT-Infonet, Orange Business and Verizon; ISDN has been increasingly popular with corporate customers, especially the Primary Rate Interface type, I-Gate. International data services increased by Php631 million, or 32%, to Php2,575 million in the first half of 2009 from Php1,944 million in the same period in 2008 primarily due to higher I-Gate revenues by Php459 million, or 130%, to Php813 million in the first half of 2009 from Php354 million in the same period in 2008 as a result of Smart's higher usage and monthly recurring charges.

Domestic data services contributed Php7,891 million in the first half of 2009, an increase of Php884 million, or 13%, as compared with Php7,007 million in the same period in 2008. Growth was driven by the continued increase in DSL subscribers, and IP-VPN and Metro Ethernet, our high-speed wide area networking services, as demand from the offshoring and outsourcing segment continues to increase.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php50 million, or 1%, to Php3,770 million in the first half of 2009 from Php3,720 million in the same period in 2008 mainly due to an increase in Smart's DFON rental to Php2,936 million in the first half of 2009 from Php2,879 million in the same period in 2008.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising, facilities management and rental fees. In the first half of 2009, these revenues increased by Php34 million, or 5%, to Php722 million from Php688 million in the same period in 2008 mainly due to an increase in facilities management fees and rental income owing to higher co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in each of the first half of 2009 and 2008.

Non-service Revenues

Non-service revenues decreased by Php48 million, or 27%, to Php131 million in the first half of 2009 from Php179 million in the same period in 2008 primarily due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Expenses

Expenses related to our fixed line business totaled Php18,440 million in the first half of 2009, an increase of Php1,249 million, or 7%, as compared with Php17,191 million in the same period in 2008. The increase was primarily due to higher compensation and employee benefits, rent, selling and promotions, and repairs and maintenance, which were partly offset by decreases in taxes and licenses, cost of sales and professional and other contracted services. As a percentage of our total fixed line revenues, expenses associated with our fixed line business accounted for 72% and 69% in the first half of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited total fixed line-related expenses for the six months ended June 30, 2009 and 2008 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
Fixed Line Services:						
Depreciation and amortization	Php6,171	33	Php6,111	35	Php60	1
Compensation and employee benefits[1]	5,142	28	4,088	24	1,054	26
Repairs and maintenance	2,008	11	1,932	11	76	4
Rent	1,430	8	963	6	467	48
Professional and other contracted services	1,070	6	1,077	6	(7)	(1)
Selling and promotions	704	4	598	3	106	18
Asset impairment	502	3	490	3	12	2
Taxes and licenses	454	2	619	4	(165)	(27)
Communication, training and travel	320	2	309	2	11	4
Insurance and security services	271	1	289	2	(18)	(6)
Cost of sales	134	1	271	2	(137)	(51)
Provisions	–	–	14	–	(14)	(100)
Other expenses	234	1	430	2	(196)	(46)
Total	Php18,440	100	Php17,191	100	Php1,249	7

[1] *Includes salaries and employee benefits, LTIP, pension and MRP costs.*

Depreciation and amortization charges increased by Php60 million, or 1%, to Php6,171 million due to a higher depreciable asset base in the first half of 2009 as compared with the same period in 2008.

Compensation and employee benefits expenses increased by Php1,054 million, or 26%, to Php5,142 million primarily due to higher salaries and employee benefits as well as increased provisions for LTIP and pension, and an increase in headcount resulting from the acquisition of Philcom and the transfer of Smart's corporate business group to PLDT, partially offset by lower provision for MRP costs. For further discussion on our LTIP and pension benefits, please see *Note 25 – Share-based Payments and Employee Benefits* to the accompanying unaudited consolidated financial statements.

Repairs and maintenance expenses increased by Php76 million, or 4%, to Php2,008 million primarily due to higher maintenance costs of IT hardware and foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in the first half of 2009 as compared with the same period in 2008.

Rent expenses increased by Php467 million, or 48%, to Php1,430 million due to the increase in pole rental charges and international leased circuit charges, partially offset by a decrease in site rental charges.

Professional and other contracted services decreased by Php7 million, or 1%, to Php1,070 million primarily due to lower contracted fees for call center outsourcing project services.

Selling and promotion expenses increased by Php106 million, or 18%, to Php704 million primarily due to higher spending on marketing and promotion expenses as a result of more major advertising campaigns launched in the first half of 2009.

Asset impairment increased by Php12 million, or 2%, to Php502 million mainly due to higher provision for uncollectible receivables.

Taxes and licenses decreased by Php165 million, or 27%, to Php454 million as a result of lower business-related taxes.

Communication, training and travel expenses increased by Php11 million, or 4%, to Php320 million due to increases in foreign and local training and travel expenses and higher mailing and courier charges.

Insurance and security services decreased by Php18 million, or 6%, to Php271 million primarily due to lower insurance and bond premiums.

Cost of sales decreased by Php137 million, or 51%, to Php134 million due to lower computer sales and a decrease in the cost of fixed wireless service handsets.

Other expenses decreased by Php196 million, or 46%, to Php234 million due to lower business and fixed line operational-related expenses.

Other Income (Expenses)

The following table summarizes the breakdown of our unaudited total fixed line-related other income (expenses) for the six months ended June 30, 2009 and 2008:

			Change	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Other Income (Expenses):				
Interest income	Php236	Php227	Php9	4
Foreign exchange losses – net	(254)	(2,594)	2,340	(90)
Gains (losses) on derivative financial instruments – net	(1,622)	4,188	(5,810)	(139)
Financing costs – net	(1,861)	(2,035)	174	(9)
Others	376	1,166	(790)	(68)
	(Php3,125)	Php952	(Php4,077)	(428)

Our fixed line business segment generated other expenses – net of Php3,125 million in the first half of 2009, a decrease of Php4,077 million, or 428%, as compared with other income – net of Php952 million in the same period in 2008. The change was due to the combined effects of the following: (i) losses on derivative financial instruments of Php1,622 million relating to the loss in the mark-to-market valuation of various financial instruments in the first half of 2009 compared to gains on derivatives of Php4,188 million in the same period in 2008 due to the impact of the de-designation of foreign currency swaps and option contracts in the first half of 2008; (ii) lower net foreign exchange losses by Php2,340 million on account of loss on revaluation of net foreign currency-denominated liabilities owing to lower depreciation of the Philippine peso in the first half of 2009; and (iii) a decrease in net financing costs by Php174 million due to lower interest on loans and related items.

Provision for Income Tax

Provision for income tax amounted to Php1,112 million, a decrease of Php1,712 million, or 61%, in the first half of 2009 as compared with Php2,824 million in the same period in 2008 primarily due to lower taxable income and the reduction in the regular corporate income tax rate from 35% to 30% beginning in January 2009.

Net Income

In the first half of 2009, our fixed line business segment contributed a net income of Php2,871 million, a decrease of Php2,828 million, or 50%, as compared with Php5,699 million in the same period in 2008 mainly as a result of an increase in fixed line-related expenses by Php1,249 million and other expenses by Php4,077 million partially offset by a lower provision for income tax by Php1,712 million and an increase in service revenues by Php834 million.

Information and Communications Technology

Revenues

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

In the first half of 2009, our ICT business generated revenues of Php5,453 million, an increase of Php288 million, or 6%, as compared with Php5,165 million in the same period in 2008. This increase is primarily due to the continued growth of our data center, the steady revenue contribution of our internet and online gaming business and customer interaction solutions partially offset by a decrease in the revenue contribution of our knowledge processing solutions business.

The following table summarizes the unaudited total revenues from our ICT business for the six months ended June 30, 2009 and 2008 by service segment:

					Increase (Decrease)	
	2009	%	2008	%	Amount	%
			(in millions)			
Service Revenues:						
Knowledge processing solutions	Php2,519	46	Php2,549	49	(Php30)	(1)
Customer interaction solutions	1,683	31	1,647	32	36	2
Internet and online gaming	543	10	473	9	70	15
Data center	468	9	295	6	173	59
	5,213	96	4,964	96	249	5
Non-Service Revenues:						
Point-product sales	240	4	201	4	39	19
Total ICT Revenues	Php5,453	100	Php5,165	100	Php288	6

Service Revenues

Service revenues generated by our ICT business segment amounted to Php5,213 million in the first half of 2009, an increase of Php249 million, or 5%, as compared with Php4,964 million in the same period in 2008 primarily as a result of an increase in co-location revenues and disaster recovery revenues from our data center business complemented by the continued growth of our customer interaction solutions and internet and online gaming businesses partially offset by the decline in knowledge processing solutions revenues. As a percentage of our total ICT revenues, service revenues remained flat at 96% in each of the first half of 2009 and 2008.

Knowledge Processing Solutions

We provide our knowledge processing solutions primarily through the SPi Group. Knowledge processing solutions contributed revenues of Php2,519 million in the first half of 2009, a decrease of Php30 million, or 1%, as compared with Php2,549 million in the same period in 2008 primarily due to lower revenues contributed by SPi's litigation and healthcare services. Knowledge processing solutions accounted for 48% and 51% of total service revenues of our ICT business in the first half of 2009 and 2008, respectively.

Customer Interaction Solutions

We provide our customer interaction solutions primarily through *ePLDT Ventus*. Revenues relating to our customer interaction solutions business increased by Php36 million, or 2%, to Php1,683 million in the first half of 2009 from Php1,647 million in the same period in 2008 primarily due to the increase in domestic business and the effect of the depreciation of the Philippine peso against the U.S. dollar on our dollar-denominated revenues. In total, we own and operate approximately 6,500 seats with 4,670 customer service representatives, or CSRs, in the first half of 2009 as compared with approximately 6,520 seats with 5,770 CSRs in the same period in 2008. At June 30, 2009 and 2008, *ePLDT Ventus* had six and seven customer interaction solution sites, respectively. Customer interaction solution revenues accounted for 32% and 33% of total service revenues of our ICT business in the six months ended June 30, 2009 and 2008, respectively.

Internet and Online Gaming

Revenues from our internet and online gaming businesses increased by Php70 million, or 15%, to Php543 million in the first half of 2009 from Php473 million in the same period in 2008 primarily due to an increase in the revenue contribution of Level Up! resulting from its new online games and Infocom's revenues from handling PLDT's DSL-related nationwide technical helpdesk operations. Our internet and online gaming business revenues accounted for 11% and 10% of total service revenues of our ICT business in the first half of 2009 and 2008, respectively.

Data Center

ePLDT operates an internet data center under the brand name *Vitro*™ which provides co-location or rental services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls and recently acquired majority interest in BayanTrade Inc., a leading licensed software reseller in the Philippines. In the first half of 2009, our data center contributed revenues of Php468 million, an increase of Php173 million, or 59%, from Php295 million in the same period in 2008 primarily due to an increase in co-location or rental revenues and server hosting. Our data center revenues accounted for 9% and 6% of service revenues of our ICT business in the six months ended June 30, 2009 and 2008, respectively.

Non-Service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first half of 2009, non-service revenues generated by our ICT business increased by Php39 million, or 19%, to Php240 million from Php201 million in the same period in 2008 primarily due to higher revenues from sales of hardware and software licenses.

Expenses

Expenses associated with our ICT business totaled Php5,447 million in the first half of 2009, an increase of Php238 million, or 5%, as compared with Php5,209 million in the same period in 2008 primarily due to increases in compensation and employee benefits, cost of sales and repairs and maintenance, partially offset by lower professional and other contracted services, selling and promotions expenses and depreciation and amortization. As a percentage of our total ICT revenues, expenses related to our ICT business were 100% and 101% in the first half of 2009 and 2008, respectively.

The following table shows the breakdown of our unaudited total ICT-related expenses for the six months ended June 30, 2009 and 2008 and the percentage of each expense item to the total:

					Increase (Decrease)	
	2009	**%**	**2008**	**%**	**Amount**	**%**
			(in millions)			
ICT Services:						
Compensation and employee benefits[1]	Php3,234	59	Php2,872	55	Php362	13
Depreciation and amortization	386	7	423	8	(37)	(9)
Rent	342	6	345	7	(3)	(1)
Repairs and maintenance	313	6	281	5	32	11
Cost of sales	309	6	264	5	45	17
Professional and other contracted services	269	5	363	7	(94)	(26)
Communication, training and travel	234	4	264	5	(30)	(11)
Amortization of intangible assets	120	2	114	2	6	5
Taxes and licenses	62	1	48	1	14	29
Selling and promotions	53	1	98	2	(45)	(46)
Insurance and security services	34	1	28	1	6	21
Asset impairment	5	–	6	–	(1)	(17)
Other expenses	86	2	103	2	(17)	(17)
Total	Php5,447	100	Php5,209	100	Php238	5

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

Compensation and employee benefits increased by Php362 million, or 13%, to Php3,234 million mainly due to higher accrued bonuses and employees' basic pay increases as a result of salary rate adjustments, as well as an increase in provisions for LTIP and MRP costs partially offset by the decrease in ePLDT and subsidiaries' employee headcount by 1,308, or 8%, to 15,656 in the first half of 2009 as compared with 16,964 in the same period in 2008.

Depreciation and amortization charges decreased by Php37 million, or 9%, to Php386 million primarily due to a decrease in the depreciable asset base of our knowledge processing solutions business due to lower capital expenditures in the first half of 2009 as compared with the same period in 2008.

Rent expenses decreased by Php3 million, or 1%, to Php342 million primarily due to lower leased circuit rentals partially offset by higher office space rentals incurred by our customer interaction solutions business.

Repairs and maintenance expenses increased by Php32 million, or 11%, to Php313 million primarily due to higher electricity charges, IT software and hardware repairs and maintenance costs as a result of data center expansion.

Cost of sales increased by Php45 million, or 17%, to Php309 million primarily due to higher sales of software licenses and hardware products.

Professional and other contracted services decreased by Php94 million, or 26%, to Php269 million primarily due to lower technical service fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions business.

Communication, training and travel expenses decreased by Php30 million, or 11%, to Php234 million primarily due to lower local and foreign training and travel expenses incurred by our customer interaction solution and knowledge processing solution businesses.

Amortization of intangible assets increased by Php6 million, or 5%, to Php120 million due to higher amortization of intangibles recognized in relation to the acquisition of SPi. Please see *Note 13 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php14 million, or 29%, to Php62 million primarily due to higher business-related taxes.

Selling and promotion expenses decreased by Php45 million, or 46%, to Php53 million mainly due to the SPi Group's lower commission, advertising and marketing expenses.

Insurance and security services increased by Php6 million, or 21%, to Php34 million primarily due to higher insurance and bond premiums.

Asset impairment decreased by Php1 million, or 17%, to Php5 million primarily due to lower provision for uncollectible receivables.

Other expenses decreased by Php17 million, or 17%, to Php86 million mainly due to lower business-related costs.

Other Income

The following table summarizes the breakdown of our unaudited total ICT-related other income (expenses) for the six months ended June 30, 2009 and 2008:

			Change	
	2009	**2008**	**Amount**	**%**
		(in millions)		
Other Income:				
Foreign exchange gains – net	Php25	Php141	(Php116)	(82)
Interest income	14	9	5	56
Gains (losses) on derivative financial instruments – net	2	(31)	33	106
Financing costs – net	(68)	(89)	21	(24)
Others	65	16	49	306
Total	Php38	Php46	(8)	(17)

Our ICT business segment generated other income of Php38 million in the first half of 2009, with a decrease of Php8 million, or 17%, from Php46 million in the same period in 2008 primarily due to lower foreign exchange gains by Php116 million due to the revaluation of net foreign currency-denominated assets partially offset by net gains on forward foreign exchange contracts and lower net financing costs as a result of lower accretion on financial liabilities.

Provision for (Benefit from) Income Tax

Provision for income tax increased by Php48 million to Php42 million in the first half of 2009 as compared with a Php6 million benefit from income tax in the same period in 2008 primarily due to a higher taxable income and expiration of tax incentives.

Net Income

In the first half of 2009, our ICT business segment registered a net income of Php2 million, a decrease of Php6 million, or 75%, from Php8 million in the same period in 2008 mainly as a result of a 5% increase in ICT-related expenses augmented by a higher provision for income tax partially offset by a 6% increase in ICT revenues.

Liquidity and Capital Resources

The following table shows our unaudited consolidated cash flows for the six months ended June 30, 2009 and 2008 as well as our consolidated capitalization and other consolidated selected financial data as at June 30, 2009 (unaudited) and December 31, 2008 (audited):

	Six Months Ended June 30,	
	2009	**2008**
(in millions)		
Cash Flows		
Net cash provided by operating activities	34,348	Php40,386
Net cash used in investing activities	5,484	8,603
Capital expenditures	*10,666*	*8,684*
Net cash used in financing activities	21,091	31,272
Net increase in cash and cash equivalents	7,808	828

	June 30,	**December 31,**
	2009	**2008**
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	Php69,478	Php58,899
Obligations under finance lease	10	11
	69,488	58,910
Current portion of interest-bearing financial liabilities:		
Notes payable	2,559	553
Long-term debt maturing within one year	10,424	14,459
Obligations under finance lease maturing within one year	54	59
Preferred stock subject to mandatory redemption	7	9
	13,044	15,080
Total interest-bearing financial liabilities	82,532	73,990
Total equity attributable to equity holders of PLDT	99,297	105,531
	Php181,829	Php179,521
Other Selected Financial Data		
Total assets	Php261,703	Php252,558
Property, plant and equipment – net	158,944	160,326
Cash and cash equivalents	41,492	33,684
Short-term investments	2,143	6,670

As at June 30, 2009, our consolidated cash and cash equivalents and short-term investments totaled Php43,635 million. Principal sources of consolidated cash and cash equivalents in the first half of 2009 were cash flows from operating activities amounting to Php34,348 million and drawings mainly from PLDT's and Smart's debt facilities, including notes payable, aggregating Php18,911 million and net proceeds from maturity of short-term investments of Php4,633 million. These funds were used principally for dividend payments of Php24,752 million, total debt principal payments of Php11,754 million, capital outlays of Php10,666 million, interest payments of Php2,564 million and share buyback of Php1,686 million.

As at June 30, 2008, our consolidated cash and cash equivalents and short-term investments totaled Php31,603 million. Principal sources of consolidated cash and cash equivalents in the first half of 2008 were cash flows from operating activities amounting to Php40,386 million and drawings from PLDT's, Smart's and ePLDT's debt facilities aggregating Php6,443 million. These funds were used principally for dividend payments of Php23,429 million, capital outlays of Php8,684 million, total debt principal payments of Php5,550 million, share buyback of Php3,553 million and interest payments of Php2,678 million.

Operating Activities

Our consolidated net cash flows from operating activities in the first half of 2009 decreased by Php6,038 million, or 15%, to Php34,348 million from Php40,386 million in the same period in 2008 primarily due to advances to the beneficial trust fund, higher level of settlement of various current liabilities and higher taxes paid.

A growing portion of our consolidated cash flow from operating activities is generated by our wireless service business, which accounted for 61% of our total service revenues in each of the first half of 2009 and 2008. Revenues from our fixed line and information and communications technology services accounted for 32% and 7%, respectively, of our total service revenues in the first half of 2009 as compared with 33% and 6%, respectively, in the same period in 2008.

Cash flows from operating activities of our wireless business amounted to Php29,311 million in the first half of 2009, an increase of Php6,566 million, or 29%, as compared with Php22,745 million in the same period in 2008. Likewise, cash flows from operating activities of our ICT business increased by Php48 million, or 5%, to Php930 million in the first half of 2009 from Php882 million in the same period in 2008. The increases in our wireless and ICT businesses segment's cash flows from operating activities were a result of higher collection of receivables and prepayments partially offset by a higher settlement of various payables in the first half of 2009 compared with the same period in 2008. On the other hand, cash flows from operating activities of our fixed line business decreased by Php12,664 million, or 76%, to Php4,095 million in the first half of 2009 from Php16,759 million in the same period in 2008. The decrease was primarily due to advances to the beneficial trust fund and higher settlement of various liabilities. The overall decrease in our cash flows from operating activities was primarily due to higher working capital requirements with advances to the beneficial trust fund, higher billings and lower collection of accounts receivable and higher level of settlement of various current liabilities.

We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to satisfy our current liabilities as our current ratio is more than 1:1 as at June 30, 2009.

Investing Activities

Consolidated net cash used in investing activities amounted to Php5,484 million in the first half of 2009, a decrease of Php3,119 million, or 36%, as compared with Php8,603 million in the same period in 2008 primarily due to the combined effects of the following: (1) higher net proceeds from the maturity of short-term investments by Php4,206 million; (2) higher net proceeds of Php559 million from the maturity of investments in debt securities; (3) lower payments for investment in subsidiaries by Php309 million; and (4) increase in capital expenditures of Php1,982 million in the first half of 2009.

Our consolidated capital expenditures in the first half of 2009 totaled Php10,666 million, an increase of Php1,982 million, or 23%, as compared with Php8,684 million in the same period in 2008 primarily due to an increase in PLDT's capital spending. PLDT's capital spending of Php5,059 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services and outside plant rehabilitation. Smart's capital spending of Php5,309 million in the first half of 2009 was used primarily to expand its HSPA 850 and broadband networks, and to further upgrade its core, access and transmission network facilities. ePLDT and its subsidiaries' capital spending of Php241 million was primarily used to fund the continued expansion of its customer interaction solution facilities. The balance represented other subsidiaries' capital spending.

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

Following the repayment by Smart in April 2006 of all its loan facilities that contained covenants restricting Smart's ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate, Smart is no longer required to seek consent from its lenders for such purposes. In the first half of 2009 and 2008, dividends declared by Smart to PLDT amounted to Php20,440 million and Php17,200 million, of which Php14,800 million and Php10,000 million were paid on April 13, 2009 and April 11, 2008, respectively.

In the first half of 2009, Piltel paid cash dividends to common shareholders amounting to Php6,077 million, of which Php5,640 million was paid to Smart.

Financing Activities

On a consolidated basis, net cash used in financing activities amounted to Php21,091 million in the first half of 2009 as compared with Php31,272 million in the same period in 2008. The decrease of Php10,181 million largely resulted from the combined effects of the following: (1) higher proceeds from the issuance of long-term debt and notes payable by Php12,468 million; (2) higher net proceeds from capital expenditures under long-term financing by Php2,922 million; (3) lower share buyback in 2009 by Php1,867 million; (4) lower settlement of capital lease obligation by Php295 million; (5) lower interest payments by Php114 million; (6) higher cash dividend payments by Php1,323 million; and (7) higher debt repayments by Php6,204 million.

Debt Financing

Additions to our consolidated debt for the six months ended June 30, 2009 and 2008 totaled Php18,911 million and Php6,443 million, respectively, mainly from PLDT's drawings related to the financing of our capital expenditure requirements. Payments in respect of principal and interest of our total debt amounted to Php11,754 million and Php2,564 million, respectively, in the first half of 2009 and Php5,550 million and Php2,678 million, respectively, in the same period in 2008.

Our consolidated long-term debt increased by Php6,544 million, or 9%, to Php79,902 million in the first half of 2009, largely due to drawings from our term loan facilities and the depreciation of the Philippine peso in the first half of 2009 as compared with the peso appreciation in the same period in 2008 resulting to higher peso equivalents of our foreign currency-denominated debts, partially offset by debt amortizations and prepayments. The debt levels of PLDT and Smart increased by 10% and 9% to Php42,609 million and Php36,805 million, respectively, in the first half of 2009 as compared with the levels as at December 31, 2008.

On February 20, 2009, PLDT issued Php5,000 million fixed rate corporate notes under a Notes Facility Agreement dated February 18, 2009, comprised of Series A five-year notes amounting to Php2,390 million, Series B seven-year notes amounting to Php100 million, and Series C ten-year notes amounting to Php2,510 million. Proceeds from the facility will be used to finance capital expenditures of PLDT.

On February 20, 2009, Smart signed a Philippine Peso term loan facility with China Trust (Philippines) Commercial Bank Corporation to finance capital expenditures for an amount of Php1,000 million, which was drawn in full on April 27, 2009. The facility is a five-year term loan payable in eight equal semi-annual installments starting on the eighteenth month from initial drawdown date. The first installment will commence on October 27, 2010 with final repayment on April 25, 2014. The amount of Php1,000 million (Php995 million, net of unamortized debt discount of Php5 million) remained outstanding as at June 30, 2009.

On March 6, 2009, PLDT signed a loan agreement with Banco de Oro Unibank, Inc. amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The loan will mature on April 17, 2014. The amount of Php2,500 million was fully drawn on April 17, 2009 and remained outstanding as at June 30, 2009.

On April 23, 2009, PLDT signed the notes facility agreement with BDO Private Bank, Inc. amounting to Php2,000 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is comprised of a Php1,000 million Tranche A fixed rate note and a Php1,000 million Tranche B floating rate note, which were fully drawn on April 28, 2009 and remained outstanding as at June 30, 2009. Both tranches will mature on April 28, 2010.

On May 12, 2009, Smart signed a Philippine Peso term loan facility with Banco de Oro Unibank, Inc. amounting to Php1,500 million to finance capital expenditures. The facility is a three-year loan payable in full upon maturity. The amount of Php1,500 million (Php1,489 million, net of unamortized debt discount of Php11 million) was fully drawn on May 20, 2009 and remained outstanding as at June 30, 2009.

On May 14, 2009, Smart signed a Philippine Peso term loan facility with Asia United Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 3, 2009. The facility is payable over five years in eight equal semi-annual installments commencing on the eighteenth month from initial drawdown date with final repayment on July 3, 2014.

On May 14, 2009, Smart signed a US$50 million five-year term facility to finance the Phase 10 (Extension) GSM equipment and services contract with Finnish Export Credit, Plc guaranteed by Finnvera and awarded to Calyon as the Arranger. The facility was drawn on July 15, 2009. The loan is payable over five years in ten equal semi-annual payments.

On May 15, 2009, Smart signed a Philippine Peso term loan facility with Philippine National Bank amounting to Php1,000 million to finance capital expenditures, which was drawn in full on July 12, 2009. The facility is a seven-year loan, payable in full on July 12, 2016.

On June 8, 2009, PLDT signed a loan agreement with Rizal Commercial Banking Corporation amounting to Php2,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over seven years with an annual amortization of 1% on the fifth and sixth year from initial drawdown date and the balance payable on maturity date. As at June 30, 2009, the undrawn balance of the loan was Php2,500 million.

On June 16, 2009, PLDT signed a loan agreement with Allied Banking Corporation amounting to Php1,500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. The facility is payable over five years in 17 equal quarterly installments. As at June 30, 2009, the undrawn balance of the loan was Php1,500 million.

On June 29, 2009, PLDT signed a loan agreement with Insular Life Assurance Company, Ltd. amounting to Php500 million to finance capital expenditures and/or refinance its loan obligations which were utilized for service improvements and expansion programs. As at June 30, 2009, the undrawn balance of the loan was Php500 million, which was subsequently drawn on July 1, 2009. The loan will mature on July 1, 2016.

On June 29, 2009, Smart signed a Notes Facility Agreement with BDO Private Bank, Inc. amounting to Php3,000 million to finance capital expenditures. The facility is comprised of Php1,000 million Series A1 note payable in full in 1.5 years and Php1,000 million each for Series B1 and B2 notes payable in full in two years. The aggregate amount of Php2,000 million of Series A1 and B1 notes were drawn on July 8, 2009. The remaining undrawn balance of Php1,000 million, which pertains to Series B2 note, will be drawn in the third quarter of 2009.

Approximately Php39,431 million principal amount of our consolidated outstanding long-term debt as at June 30, 2009 is scheduled to mature over the period from 2009 to 2012. Of this amount, Php19,689 million is attributable to PLDT, Php19,254 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

For a complete discussion of our long-term debt, see *Note 20 – Interest-bearing Financial Liabilities – Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

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

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

Financing Requirements

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

Consolidated cash dividend payments in the first half of 2009 amounted to Php24,752 million as compared with Php23,429 million paid to shareholders in the same period in 2008. On August 5, 2008, we declared a regular cash dividend of Php70 per share and on March 3, 2009, we declared our regular and special cash dividends of Php70 per share and Php60 per share, respectively, representing approximately 100% payout of our 2008 earnings per share on an adjusted basis (excluding asset impairment on non-current assets and gains/losses on foreign exchange revaluation and derivatives).

On August 4, 2009, we declared a regular cash dividend of Php77 per share of common stock to holders of record as at August 20, 2009 payable on September 22, 2009.

Off-Statement of Financial Position Arrangements

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

Equity Financing

PLDT raised Php12 million and Php6 million from the exercise by certain officers and executives of stock options in the first half of 2009 and 2008, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% Cumulative Convertible Preferred Stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php1 million in each of the first half of 2009 and 2008 from this source.

As part of our goal to maximize returns to our shareholders, in 2008, we obtained board of directors' approval for a share buyback program of up to five million shares of PLDT's common stock, representing approximately 3% of PLDT's total outstanding shares of common stock. As at June 30, 2009, we had acquired a total of 2.7 million shares of PLDT's common stock representing 1% of PLDT's outstanding shares of common stock at a weighted average price of Php2,388 per share for a total consideration of Php6,362 million in accordance with the share buyback program. The effect of the acquisition of shares of PLDT's common stock pursuant to the share buyback program was considered in the computation of our basic and diluted earnings per common share for the six months ended June 30, 2009. Please refer to *Note 8 – Earnings Per Common Share* and *Note 19 – Equity* to the accompanying unaudited consolidated financial statements for further details.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our consolidated contractual undiscounted obligations as at June 30, 2009 and December 31, 2008, see *Note 26 – Contractual Obligations and Commercial Commitments* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at June 30, 2009 and December 31, 2008, our outstanding consolidated commercial commitments, in the form of letters of credit, amounted to Php1,669 million and Php1,634 million, respectively. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign currency exchange risk, interest rate risk, credit risk and capital management. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations, equity issues and sales of certain assets.

For further discussions of these risks, see *Note 26 – Contractual Obligations and Commercial Commitments* and *Note 28 – Financial Assets and Liabilities* to the accompanying unaudited consolidated financial statements.

The following table sets forth the consolidated fair values of our financial assets and liabilities recognized as at June 30, 2009 and December 31, 2008:

	Fair Values	
	June 30, 2009	**December 31, 2008**
	(Unaudited)	**(Audited)**
	(in millions)	
Noncurrent Financial Assets		
Available-for-sale financial assets		
Listed equity securities[1]	Php69	Php69
Unlisted equity securities[2]	64	62
Investments in debt securities[1]	461	629
Advances and refundable deposits – net of current portion[2]	636	728
Total noncurrent financial assets	1,230	1,488
Current Financial Assets		
Cash and cash equivalents[2]	41,492	33,684
Short-term investments[2]	2,143	6,670
Investment in debt securities[1]	2,322	1,656
Trade and other receivables[2]	21,813	15,909
Derivative financial assets[2]	11	56
Current portion of advances and refundable deposits[2]	2	–
Total current financial assets	67,783	57,975
Total Financial Assets	**Php69,013**	Php59,463
Noncurrent Financial Liabilities		
Interest-bearing financial liabilities[3]	Php70,685	Php57,069
Derivative financial liabilities[2]	2,760	1,761
Customers' deposits[2]	1,496	1,476
Deferred credits and other noncurrent liabilities[2]	8,963	7,959
Total noncurrent financial liabilities	83,904	68,265
Current Financial Liabilities[2]		
Accounts payable	16,303	16,294
Accrued expenses and other current liabilities	21,956	18,612
Derivative financial liabilities	11	87
Interest-bearing financial liabilities	13,044	15,080
Dividends payable	1,486	1,379
Total current financial liabilities	52,800	51,452
Total Financial Liabilities	**Php136,704**	Php119,717

(1) *Fair values determined using observable market inputs that reflect quoted prices in active markets for identical assets or liabilities.*
(2) *Fair values determined using inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.*
(3) *Fair values of U.S. dollar notes were determined using observable inputs that reflect quoted prices in active markets while fair values of other loans and obligations under finance lease were determined using inputs other than quoted prices.*

The following table sets forth the amount of consolidated gains (losses) recognized for the financial assets and liabilities for the six months ended June 30, 2009 and for the year ended December 31, 2008:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	(in millions)	
Profit and Loss		
Gains (losses) on derivative financial instruments	(Php1,631)	Php3,812
Interest income	900	1,668
Interest on loans and related items	(2,907)	(5,861)
Accretion on financial liabilities	(484)	(956)
Losses on cash flow hedges	–	(404)
Other Comprehensive Income		
Net losses available-for-sale financial assets	(2)	(9)
Net losses on cash flow hedges charged to other comprehensive income	–	(662)
Net gains on cash flow hedges removed from other comprehensive income taken to income	–	(697)
	(Php4,124)	(Php3,109)

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In the first half of 2009, the inflation rate has decreased and we expect this trend to have an impact on our operations moving forward. The average inflation rate in the Philippines in the first half of 2009 was 5.0% as compared with 7.6% in the same period in 2008.

PART II – OTHER INFORMATION

Piltel's Acquisition of Shares in Manila Electric Company, or Meralco

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., together the Lopez Group and PLDT entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223 million shares in Meralco representing approximately 20% of Meralco's outstanding shares of common stock, for a cash consideration of Php20 billion, or Php90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco. As part of the transaction, Piltel and FPUC also entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note dated April 20, 2009, issued by FPUC, with a face value of Php2 billion, exchangeable at Piltel's option into 22.2 million shares of common stock of Meralco, which will constitute part of approximately 20% of Meralco's voting common shares to be acquired by Piltel in this transaction. The exchange option is exerciseable simultaneously with the acquisition of such shares by Piltel.

In the Annual Stockholders' Meeting of Piltel held on June 30, 2009, its stockholders approved the acquisition by Piltel of the 223 million shares in Meralco. On July 14, 2009, Piltel paid Php18.07 billion and exercised the exchange option for the 22.2 million shares, which is the subject of the exchangeable note issued by FPUC, to complete the acquisition of the 223.0 million shares in Meralco. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

Meralco is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kilometers, where approximately a quarter of the total Philippine population resides. It has a customer base of about 4.6 million, comprising commercial, industrial, and residential customers. In addition to electrical distribution, Meralco undertakes several related businesses, including e-Meralco Ventures, Inc., which operates a fiber optic network of over 1,000 kilometers and provides leased line connections, metro ethernet connections and disaster recovery transport services.

The PLDT Group and Meralco have a number of compatible network and business infrastructure elements, such as fiber optic backbones, power pole network, and business offices. For many years, we have been using the power pole network of Meralco within Metropolitan Manila for PLDT's fixed line aerial cables in this area pursuant to short-term lease agreements with Meralco with typically a five-year term. The contemplated investment in Meralco thus constitutes a strategic investment for us that could lead to opportunities for operational and business synergies and may result in new revenue streams and cost savings for us as well as Meralco.

Sale/Transfer of Piltel's Cellular Business/Assets to Smart

On June 30, 2009, Piltel's stockholders approved the sale/transfer of Piltel's cellular business/assets to Smart through a series of transactions, which would include: (a) assignment of Piltel's *Talk 'N Text* trademark to Smart for a consideration of Php8,004 million; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of Php73 per subscriber, which is equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value. As a result, the cellular business will therefore be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between Piltel and Smart. The transfer is expected to be completed in August 2009. In view of the change in Piltel's business direction, Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire from Piltel's minority shareholders the remaining 840 million shares representing approximately 7.19% of the outstanding common stock of Piltel at Php8.50 per share, payable in cash and in full on August 12, 2009. Smart filed the Tender Offer Report with the Securities and Exchange Commission and the Philippine Stock Exchange on June 23, 2009 pursuant to Section 19 of the Securities Regulation Code. The tender offer commenced on July 1, 2009 and ended on July 29, 2009, with approximately 93% of Piltel's minority shares tendered, thereby increasing Smart's ownership to approximately 99.5% of the outstanding common stock of Piltel.

Additional Shareholder Investment in Blue Ocean Wireless, or BOW

In July 2009, Smart, through its subsidiary SmartConnect Holdings, Inc., or SCH, agreed to invest an additional US$6 million in BOW contemporaneously with certain other shareholders of BOW. The purpose of the additional shareholders' investment is to accelerate the rapid introduction of FleetBroadband and next generation maritime communication services. On July 14, 2009, BOW announced that it has successfully completed full FleetBroadband testing and the service is now fully operational and commercially available to existing and potential BOW customers. BOW has established itself as the leading provider of GSM services to the merchant maritime sector and has demonstrated rapid growth in its field since it was founded two years ago. With the FleetBroadband service, BOW ensures connectivity at sea with a full range of value-added services such as texting, e-mailing and internet access. Please see *Note 10 – Investments in Associates and Joint Ventures* to the accompanying unaudited consolidated financial statements for further discussion.

Smart's Acquisition of shares in Primeworld Digital Systems, Inc., or PDSI

Smart acquired 34 million shares representing 40% of the issued and outstanding capital stock of PDSI for a consideration of Php632 million under a Sale and Purchase Agreement, or SPA, dated May 15, 2009 between Smart and PDSI. The SPA provides that Smart will acquire 84 million shares, the total issued and outstanding capital stock of PDSI for a total consideration of Php1,579 million. The acquisition will be completed on two dates: (1) the First Closing which took place on May 15, 2009, involved the acquisition of 34 million shares for a consideration of Php632 million; and (2) the Second Closing, which is expected to take place in the third quarter of 2009, will involve the acquisition of 50 million shares for a consideration of Php947 million.

Upon completion of the First Closing, (1) Smart will be entitled to two seats out of the five seats in the board of directors of PDSI; and (2) Smart can cause PDSI to conduct WiMax trials which shall be initiated by Smart in consultation with the selling shareholders of PDSI. Conditions of the Second Closing include: (a) the First Closing shall have occurred; and (b) the NTC shall have issued an order approving the transfer of the Second Closing Shares to Smart and such order has become final and does not impose any condition which is unacceptable to Smart. Upon completion of the Second Closing, Smart will be entitled to nominate all of the members of the board of directors of PDSI and take over control and management of PDSI.

Additional ePLDT's Investment in BayanTrade, Inc., or BayanTrade

On January 20, 2009 and April 15, 2009, ePLDT acquired additional 34.31% and 48.39% equity interest in BayanTrade for Php28 million and Php39 million, respectively, thereby increasing its ownership interest to 93.50%.

BayanTrade was incorporated initially as an e-procurement joint venture established with six of the Philippines' leading conglomerates. It is now the leading authorized software reseller in the Philippines of a Global ERP software.

Recent NTC Memorandum Circulars

Memorandum Circular No. 03-07-2009, dated July 3, 2009, extended the validity of prepaid loads depending on the value of the load. Prepaid loads with higher values shall have longer validity periods – the shortest validity period is three (3) days while the maximum period is 120 days.

Memorandum Circular No. 05-07-2009, dated July 23, 2009, prescribes six (6) seconds per pulse as the maximum unit of billing for cellular mobile telephone service, or CMTS, voice. Operators will be allowed to charge a higher rate for the first two pulses (or 12 seconds) in order to recover set-up costs. Subscribers, however, may still opt to be billed on a per minute basis or to subscribe to unlimited service offerings. The Memorandum requires all CMTS providers to submit their respective proposed rates within 30 days from effectivity of the circular and to make the necessary adjustments to their billing systems within 120 days from effectivity, in order to effect the change in pulsing thereafter.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 24 –Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX – AGING OF ACCOUNTS RECEIVABLE

The following table shows the unaudited aging of our consolidated receivables as at June 30, 2009:

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	Over 91 Days
			(In Millions)		
Corporate subscribers	Php9,506	Php1,872	Php1,485	Php730	Php5,419
Retail subscribers	8,886	1,727	996	301	5,862
Foreign administrations	4,551	1,654	1,033	616	1,248
Domestic carriers	1,016	212	229	197	378
Dealers, agents and others	11,402	11,027	79	46	250
Total	Php35,361	Php16,492	Php3,822	Php1,890	Php13,157
Less: Allowance for doubtful accounts	13,548				
Total Receivables - net	**Php21,813**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the first half of 2009 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: ______________________________
NAPOLEON L. NAZARENO
President and Chief Executive Officer

Signature and Title: ______________________________
ANABELLE LIM-CHUA
Senior Vice President and Treasurer
(Principal Financial Officer)

Signature and Title: ______________________________
JUNE CHERYL A. CABAL
First Vice President and Controller
(Principal Accounting Officer)

Date: August 4, 2009